AR77

looking

to the future

Penn West Petroleum Ltd.

2003 Annual Report

Contents

Corporate Profile

Penn West Petroleum Ltd. is a Canadian senior independent oil and natural gas producer committed to maximizing shareholder value over the long term. Penn West's track record of success has been achieved through a balance of successful drilling on internally generated prospects and through cost effective acquisitions.

In 2003, Penn West's production averaged 101,500 barrels of oil equivalent per day (6:1 conversion). Production was weighted 54 percent to natural gas. Capital expenditures of $608 million focused on building Penn West's inventory of plays that will provide long term growth. The Company expanded its base of undeveloped land by more than one quarter over year end 2002. Undeveloped land at year end 2003 totalled more than 5.3 million net acres.

Penn West's financial discipline, underpinned by strong commodity prices, generated record cash flow and net income in 2003. Penn West achieved a significant reduction in debt, resulting in a year end debt to cash flow ratio of 0.5:1. During 2003, Penn West declared its first ever dividend, a special dividend of $1.50 per share and a quarterly dividend of $0.125 per share payable beginning in the first quarter of 2004.

Penn West is a publicly traded company listed on the Toronto Stock Exchange (TSX) under the trading symbol "PWT." At December 31, 2003, there were 53.7 million common shares issued and outstanding.

Through reviewing strategic alternatives to maximize long term shareholder value.

Through developing short to medium term plays that provide cash flow to reinvest in future oriented projects. These include our natural gas program at Wildboy in northeastern B.C. and our heavy oil plays in the Plains area.

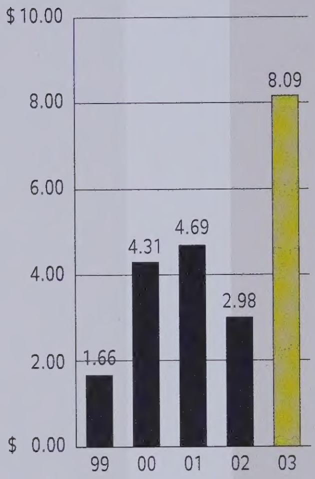
Through planning projects with long life, profit-making potential that offer production and reserves growth, including our enhanced recovery and coalbed methane programs.

Defining the *future*

Through continuing our financial discipline that emphasizes efficient operations, a strong balance sheet, and maximizing profitability.

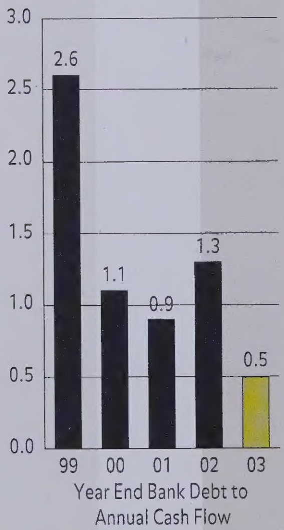
Through achieving competitive returns on invested dollars. Over the last 11 years, Penn West has achieved an average return, after tax, on equity of 16 percent per year.

Net Income per Share
($ per share)



Growth in basic net income per share reflects an increasing production base and rising commodity prices.

Debt to Cash Flow Ratio



Penn West strengthened its balance sheet during 2003.

Highlights

FINANCIAL ($ millions, except per share amounts and % change)

Years ended December 31	2003	2002	% change
Gross revenues	1,367.8	986.9	39
Cash flow*	812.7	463.5	75
Basic per share	15.11	8.70	74
Diluted per share	14.90	8.48	76
Net income	435.0	158.4	175
Basic per share	8.09	2.98	171
Diluted per share	7.98	2.90	175
Capital expenditures, net	608.1	573.3	6
Bank indebtedness	442.4	598.4	(26)
Shareholders' equity	1,621.0	1,293.0	25
Total assets	3,138.0	2,792.4	12
Common shares outstanding (millions)			
Weighted average			
Basic	53.79	53.24	1
Diluted	54.53	54.63	–
Year end			
Basic	53.69	53.73	–
Basic plus stock options	57.92	58.74	(1)

OPERATIONAL

Years ended December 31	2003	2002	% change
Production – annual average			
Light oil and natural gas liquids	35,916	34,151	5
Conventional heavy oil	10,416	9,882	5
Total liquids (bbls/day)	46,332	44,033	5
Natural gas (mmcf/day)	331.3	332.7	–
Proved and risked probable reserves**			
Oil and liquids (mmbbls)	222.4	230.1	(3)
Natural gas (bcf)	813	955	(15)
Wells drilled			
Gross	750	365	105
Net	713	335	113
Undeveloped land (000s of acres)			
Gross	5,538	4,402	26
Net	5,313	4,158	28
Average working interest (%)	96	94	2

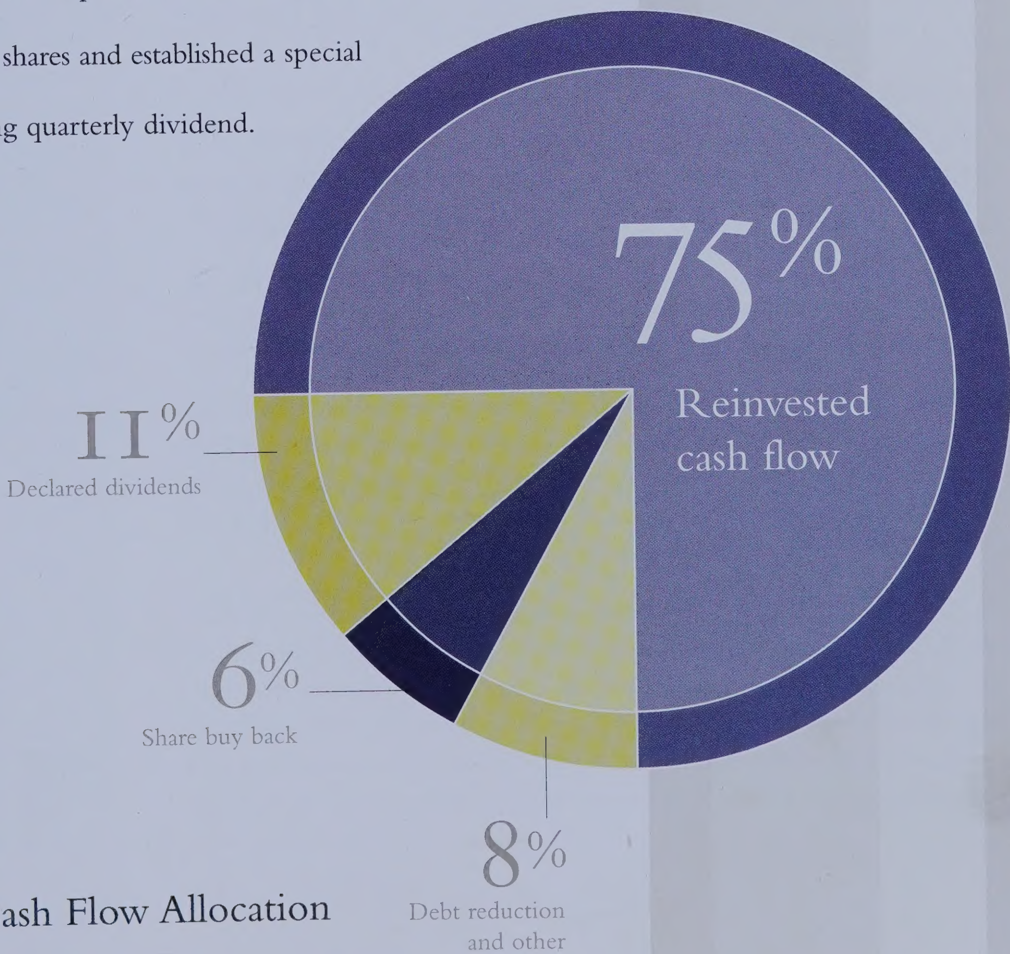
* Cash flow is a non-GAAP term and represents cash from operations before changes in non-cash working capital and payments for surrendered options.

** 2003 proved plus probable reserves under NI 51-101 are compared with established reserves (proved plus half probable) for 2002.

Financing growth and enhancing shareholder value.

In 2003 Penn West achieved record cash flow of $813 million.

We reinvested 75 percent or $608 million, repurchased 1.2 million shares and established a special and ongoing quarterly dividend.



2003 Cash Flow Allocation

Letter to our Shareholders

In 2003, Penn West reduced debt, repurchased common shares and controlled capital expenditures in an environment of high asset prices. The results of our financial discipline were record cash flow and net income, a record low debt to cash flow ratio, and Penn West's first dividend.

The business environment in 2003 was characterized by strong commodity prices and high asset prices. Resisting the temptation to deliver short term growth for its own sake, we spent the year carefully building our play areas to create an even stronger foundation for the future. The year brought operational challenges, including increased unit operating costs, higher finding and development costs and downward revisions to reserves. As a result of challenges encountered in 2003, the Board of Directors has initiated a process to evaluate strategic alternatives for Penn West.

With a strong balance sheet and with expectations for improving operational performance in 2004, the Company is in a position to select from a number of strategic alternatives.

Reviewing Options for Penn West's Future

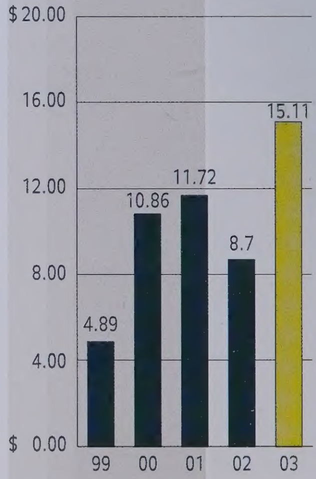
Penn West has received several representations from its shareholders regarding strategic alternatives and maintaining the status quo. On March 1, 2004, the Board resolved to review three alternatives examining the benefits and challenges with regard to the following options:

1) Maintaining the status quo and continuing the Company's strategic direction as an independent oil and natural gas exploration and development company;

2) Converting the Company in whole or in part into an income trust. In this regard, the Board instructed legal counsel to obtain an advance ruling from Canada Customs and Revenue Agency regarding the tax consequences of a potential conversion to an income trust. Receipt of a satisfactory ruling will be a material consideration in pursuing this alternative; and

3) Consider other strategic alternatives including a sale or merger of the Company.

Cash Flow per Share (basic)



Strong Financial Discipline – and Penn West's First Dividend

The Company is in a strong position as the Board of Directors commences its review of strategic alternatives. Penn West has maintained financial discipline through several price cycles, and this approach continued in 2003 as evidenced by the following results:

> Capital expenditures of $608 million were well below cash flow from operations of $813 million, with spending focused on exploration and development;

> Debt repayments totalling more than $73 million and the strengthening Canadian dollar cut Penn West's year end debt by more than $150 million to $442 million and, combined with record cash flow, reduced the debt to cash flow ratio to 0.5:1;

> Share repurchases of $53 million eliminated dilution for shareholders;

> Net general and administrative costs of only $13 million on revenues of $1.37 billion; and

> Debt denominated in U.S. dollars created a significant unrealized foreign exchange gain, partially offsetting the revenue impact of the rising Canadian dollar.

In 2003, Penn West achieved the following operational and financial results:

> Average production of 101,549 boe per day, a Company record;

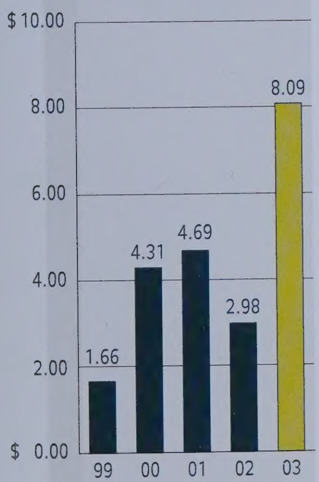
> Cash flow of $813 million ($15.11 per share), an increase of 75 percent over 2002 and a Company record;

> Net income of $435 million ($8.09 per share), an increase of 175 percent over 2002 and a Company record; and

> Return on shareholders' equity of 29.9 percent.

In the fourth quarter, the Board of Directors declared a special dividend of $1.50 per share as the Company felt that a portion of the year's record cash flows should benefit shareholders directly. Penn West also initiated a quarterly dividend of $0.125 per share, with the first payment on January 2, 2004. Penn West's new dividend policy recognizes the desire of many investors for income and aligns the Company with U.S. senior independents.

Net Income per Share
(basic)

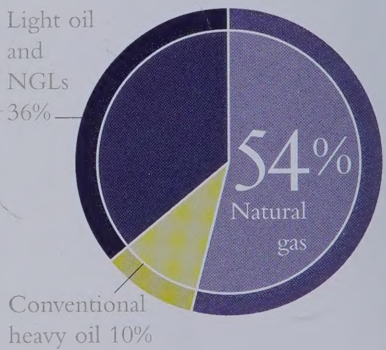


The Future

The primary goal of Penn West's management team has been to maximize shareholder value through sustainable and profitable growth over the long term. In 2003, our operational performance reflected increased competition for acquisitions, an increase in costs and new reserve reporting requirements mandated by National Instrument 51-101. Despite these challenges, Penn West generated record annual average production and cash flow in 2003, along with a record low debt to cash flow ratio.

Whichever strategic direction the Board adopts for recommendation to shareholders, it must be emphasized that Penn West will do so from a position of strength. At this date, the Company's production is approximately 112,000 boe per day, a new record and ahead of plan. Penn West's carefully developed asset base presents many opportunities for future value creation. Our balance sheet is strong and the outlook for commodity prices is favourable. These conditions provide the Company with the widest possible latitude from which to determine its strategic direction.

Penn West has a high value production mix that is weighted towards natural gas and light oil.



2003 Production Mix (% boe)

Our financial strength will enable the Company to exploit the next downturn in commodity prices through cost effective acquisitions, regardless of the corporate structure and strategy that Penn West's shareholders adopt. Penn West's long term plays, combined with our financial discipline, create a tremendous platform for continued value creation, whether through capital appreciation, income generation or profitable dispositions.

Penn West has a 2004 base capital program budgeted at $600 million to $700 million, including $234 million for a significant property acquisition. In February 2004, Penn West acquired oil and natural gas properties producing a combined 10,000 boe per day and including 400,000 net acres of undeveloped land in southwest Saskatchewan. The assets represent a very good strategic fit with our existing area operations and provide operating efficiencies and development opportunities.

We are moving ahead with a focused program of exploration, development, exploitation and technology plays. Our 2004 base budget will fund the drilling of approximately 400 net wells, including natural gas development at Wildboy and infill drilling at Pembina. Our 2004 budget is much more levered to development than was the 2003 budget and it emphasizes the variety and strength of development prospects that are available to Penn West now and in the future. The budget will also enable us to pursue medium term growth prospects for coalbed methane development and our CO_2 miscible flood programs. Penn West's 2004 budget is based on average commodity prices of US$30.00 per barrel of WTI crude oil and an average corporate natural gas sales price of $5.80 per mcf. Under this price outlook and at the planned drilling rate, Penn West's production should average 105,000-109,000 boe per day, and Penn West should generate cash flow of $640 million to $670 million ($11.80 to $12.30 per share) in 2004.

We gratefully recognize the tremendous effort and results generated by Penn West's employees and managers. We also recognize Penn West's experienced Board of Directors, whom we thank as always for their independent judgement and sound corporate governance on behalf of our shareholders. Together, we have made Penn West what it is today – one of Canada's top five senior independent producers.

On behalf of the Board of Directors,

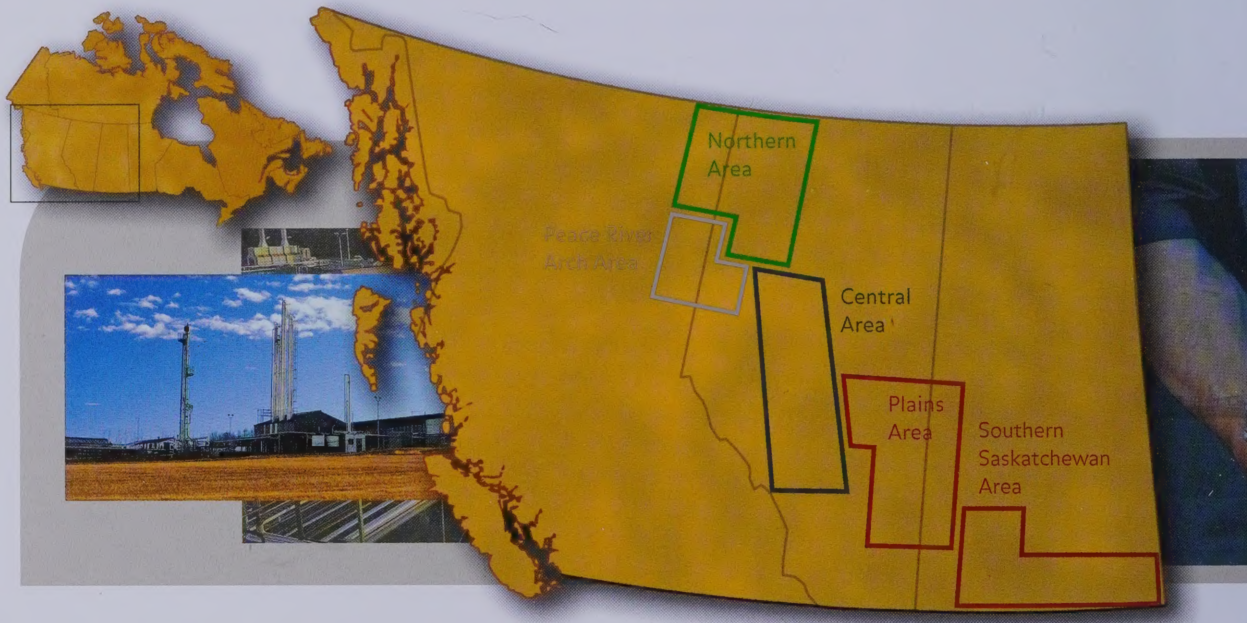
N. Murray Edwards
Chairman

William E. Andrew
President

Calgary, Alberta
April 27, 2004

Operations Review

Penn West currently operates in five core areas ranging from southern Saskatchewan to a region bordering on the Northwest Territories. Over the past decade, Penn West has expanded these core areas to ensure that a significant prospect inventory is available to accommodate the Company's growth.



Northern Area

This region has been Penn West's primary source of growth in natural gas production. The Northern Area produced 134 mmcf per day at the end of 2003, representing 43 percent of Penn West's natural gas volumes. A land base of 2.1 million net acres contains a prospect inventory that will generate years of future exploration and development activity.

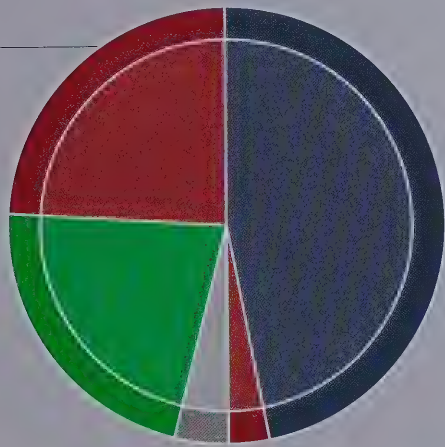
Peace River Arch Area

This region straddles the Alberta-British Columbia border and offers multi-zone oil and natural gas potential. Targets in the area range from shallow Cretaceous pools to deeper and more prolific Slave Point targets. The Peace River Arch core area accounted for approximately four percent of Penn West's total production in 2003.

Central Area

This area contains a stable, low decline rate base of light oil production and is also a significant source of multi-zone natural gas production. The Company is a major consolidator of assets in the area, and Penn West has accumulated a significant holding of long life Cardium oil reserves. The Central Area contains potential for exploitation of coalbed methane and carbon dioxide miscible flood programs.

2003 Year End Production Volumes by Core Area (% boe)



Plains Area

A balance of conventional heavy oil assets and shallow natural gas prone lands creates an environment conducive to low cost, low risk exploration and development opportunities. The Plains Area accounted for approximately 24 percent of Penn West's total production in 2003.

Southern Saskatchewan Area

Penn West acquired significant tracts of undeveloped land in Saskatchewan during 2003, and work is underway to explore and develop these lands for medium gravity oil and shallow natural gas.

Natural Gas

Wildboy

Northern Area

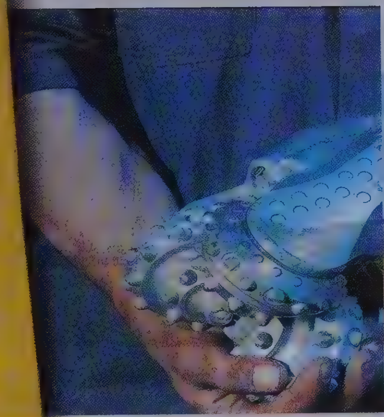
Penn West's successful, 100 percent owned Wildboy play in northern British Columbia continued to grow in 2003, with production reaching a seasonal peak in excess of 100 mmcf per day in May of 2003. Wildboy continues to yield new full cycle exploration prospects and additional reserves.

Timing of Wells

- > 2003
- > 2002
- > 2001
- > 2000
- > 1999

Exploration of both the original Devonian Jean Marie reef play and the more recent Mississippian Debolt subcrop continue to expand from the main producing field. Penn West drilled 48 wells at Wildboy during the 2003 winter season, tying in 22 wells before breakup. Thirteen of the 48 wells were Jean Marie horizontals, while the remainder were Debolt vertical exploration and development wells.

Up to 40 new wells are planned in 2004 into the Jean Marie and Debolt formations. In addition to ongoing development, Penn West is working to extend the Jean Marie play to the north and east. Penn West will continue to evaluate its undeveloped lands, striving to maintain a continuous five year drilling inventory. Cumulative production from Wildboy is now in excess of 120 bcf, confirming Penn West's confidence in the large resource potential for the area.



Natural Gas

Overview

As illustrated in the chart below, natural gas prices have been rising over the past decade. One reason for the strength in natural gas pricing has been increasing demand for this clean burning fuel. Another reason is that increased natural gas exploration and development has resulted in steeper decline rates and smaller average pool sizes for new discoveries. With the strength in natural gas prices, higher priced supply sources such as coalbed methane and more remote shallow gas have become economic and will play an important role in meeting future demand.

Penn West's production has been slightly weighted to natural gas over the past decade. In 2003, natural gas production averaged 331 mmcf per day, or 54 percent of the Company's overall volumes on a 6:1 basis. The Northern Area has driven Penn West's growth in natural gas over the past decade. Major volumes are also derived from the Central Area, and the Plains Area is emerging as an important shallow gas exploration region.

As prices firmed through 2003, Penn West accelerated field activity. The Company had an active drilling program at Wildboy, Hotchkiss and Boyer. Penn West also launched new plays in the Peace River Arch at Firebird and on the Alberta/Saskatchewan Plains, with two new shallow gas programs. The Company has continued to increase its base of natural gas prospective undeveloped lands, providing a significant inventory of undrilled locations.

Current strong commodity prices and the North American economy's longer term need for natural gas are underpinning Penn West's planned natural gas program for 2004. Activities will include continued exploration and development at Wildboy, increased investment in coalbed methane and accelerated exploration and development of the extensive shallow gas potential on the Alberta/Saskatchewan Plains, including the Viking gas program.

Alberta/South Saskatchewan Plains Shallow Gas

Viking Gas

Penn West owns and operates an extensive infrastructure of gas plants and pipelines in the Plains Core Area. This existing infrastructure lowers costs ınd helps to generate attractive economics for .lrilling lower productivity Viking wells (typically 75 .o 150 mcf per day). Once stabilized, these Viking ·ells have a very steady, low rate of decline.

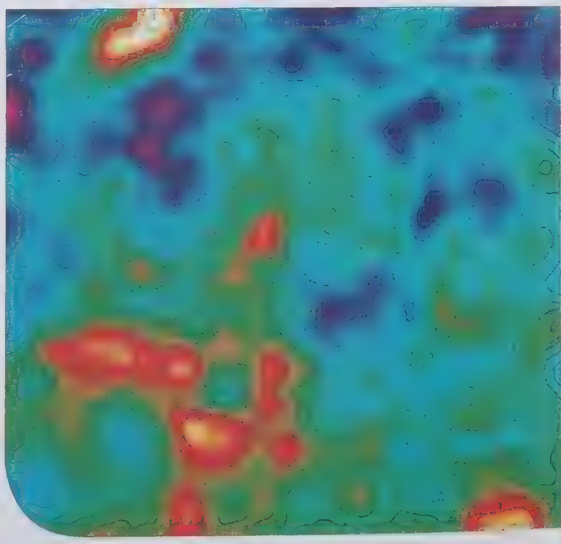
In 2003, Penn West drilled 80 Viking wells on existing i newly acquired lands at Wainwright, Compeer d Monitor. Typical pool development will see two lls per section. Most of the new wells will be tied by late in the first quarter of 2004, producing a nbined total of 10 mmcf per day of sweet, dry tural gas.

nn West's Viking program is accelerating in 2004, ith 140 to 160 planned wells, plus further ploration of additional Viking prospects. Penn West ll also continue its traditional Mannville gas gram, with 30 to 40 such wells planned for 2004.

outhwest Saskatchewan

nn West's initial entry in this region came through il acquisition in 2002. In 2003, recognizing the tural gas exploration potential in the area, Penn st made significant Crown land acquisitions, llowed immediately by the drilling of 23 ploratory wells. Completion and testing began before year end 2003 and continued into the first quarter of 2004.

Penn West considers this an area with high potential for significant reserves and production of natural gas. Exploration of these geological plays has been aided by modification of Saskatchewan's fiscal regime and regulatory changes that permit infill drilling. In 2004, Penn West will continue an active exploration program on multiple prospects.

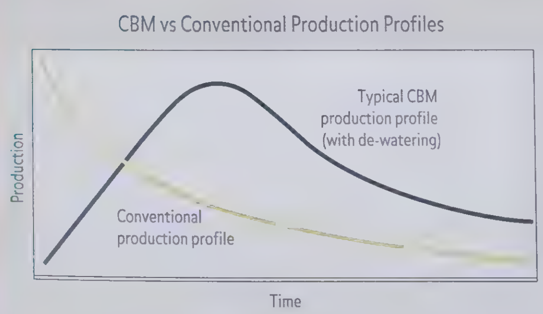


This map is a 3D seismic image of a typical structural relief on the Viking formation. Relative structural "highs" are represented by the yellows and reds, while "lows" are darker blues and purples.

Coalbed Methane

Penn West believes in the growth potential for CBM in western Canada. We are actively evaluating our CBM prospects, with the objective of achieving commercial scale production by late 2005 or early 2006.

Penn West's CBM program is currently targeting the coal seams in Pembina, Swan Hills and at various prospects in the Plains area. Based on the experience gathered from the U.S. CBM industry, Penn West believes that its current CBM asset base meets several key criteria for successful development:



In a typical CBM well where de-watering is required, methane production increases during the start-up phase before peaking and then gradually declining. This contrasts with a conventional natural gas well where production typically declines over the life of the well.

- A known resource base, totalling over two trillion cubic feet of net gas-in-place;
- A large, contiguous land area, required for project economies of scale, and to support the large number of wells (typically producing 50-150 mcf per day per well) needed for commercial CBM production; and
- Extensive natural gas processing and water handling infrastructure covering the CBM prospective area, which will shorten project cycle times and reduce capital and operating costs.

CBM development presents several technical challenges, and requires careful management of operations to achieve profitability. Penn West has made a long term commitment to understand local reservoir characteristics and to test the technology needed to unlock the resource. The Company remains bullish on the potential for profitable, commercial scale CBM projects over the medium term, particularly in a strong natural gas price environment.

Light Oil

South Swan Hills

Central Area

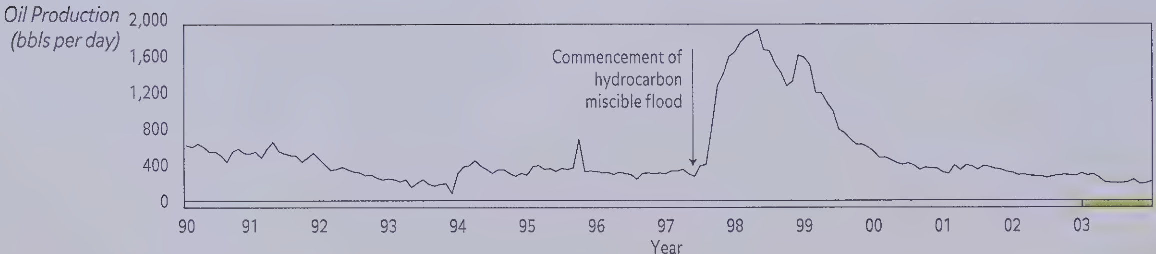
Penn West operates a hydrocarbon miscible flood at South Swan Hills that produced an average of 3,600 barrels per day of light crude oil along with 1,200 barrels per day of NGLs and 7 mmcf per day of natural gas during 2003. The tertiary recovery program in the Beaver Hill Lake formation is boosting recovery of the field's estimated 800 million barrels of original oil-in-place.

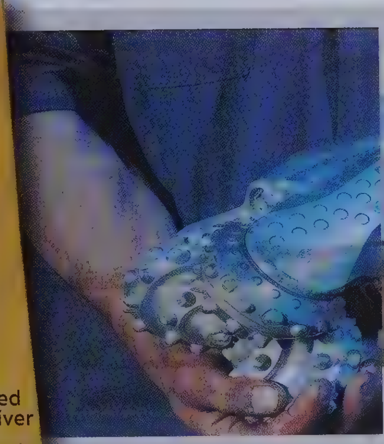
In late 2003, Penn West reached agreement with its working interest partners at South Swan Hills to install two new miscible flood patterns, each consisting of one horizontal injector and six vertical production wells. Drilling began before year end and injection of hydrocarbon solvent and water is to commence in the second half of 2004.

South Swan Hills offers further upside, including injection and production optimization, infill drilling at pool edges and additional miscible patterns. Penn West's nearby East Swan Hills pool, which averaged 400 barrels per day in 2003 and remains under secondary recovery, should also benefit from the application of miscible flood technology.

These pools are excellent candidates for conversion to carbon dioxide (CO_2) miscible flood. Injecting hydrocarbons in a miscible flood uses a valuable commercial commodity, whereas CO_2 is a waste product. Area operators and both Federal and Provincial Governments are looking at ways to plan, finance and build a cost effective CO_2 transportation and handling infrastructure.

The chart below demonstrates the production response of the hydrocarbon miscible flood for Pattern 778 at South Swan Hills. Incremental reserves are estimated at one million barrels. Two new projects are planned for 2004 that offset Pattern 778.





Light Oil

The chart at the bottom of this page demonstrates the improving price outlook for crude oil. Falling worldwide excess production capacity and steady demand growth have contributed to strengthening crude prices, particularly for light oil.

The Western Canada Sedimentary Basin is considered mature for light oil exploration potential, but Penn West sees opportunities to create significant additional value using improved drilling, completion and recovery methods. Penn West has assembled a portfolio of light oil producing fields amenable to infill drilling, improved secondary recovery and to tertiary or enhanced oil recovery (EOR), particularly through carbon dioxide (CO_2) miscible flooding. CO_2 miscible flooding has been successfully applied at dozens of U.S. light oil pools, including previously shut-in fields. EOR has been far less vigorously pursued in Canada. The Company currently operates the only commercial CO_2 miscible flood in Alberta at Joffre. Penn West sees strong EOR potential at several major fields in the Basin, provided that a low cost supply of CO_2 can be secured.

Correctly applied infill drilling, improved secondary recovery and tertiary recovery can do far more than slow a mature pool's production decline. We see the Pembina Cardium project and others like it as growth plays. The Pembina Cardium field is the largest light oil reservoir ever discovered in Canada. Penn West has consolidated the pool's fragmented ownership in order to apply efficiencies, economies of scale and a unified approach to secondary and tertiary recovery. Other important light oil producing pools include South Swan Hills, East Swan Hills and Joffre.

Penn West's light oil and NGL production averaged 35,916 barrels per day in 2003, or 36 percent of total corporate volumes. Advantages of light oil include low annual decline rates, long life production, premium product prices, reduced Crown royalties for lower productivity wells and low geological risk for secondary and tertiary recovery of known pools.

Yearly Average Oil and Liquids Price ($/bbl)

Joffre

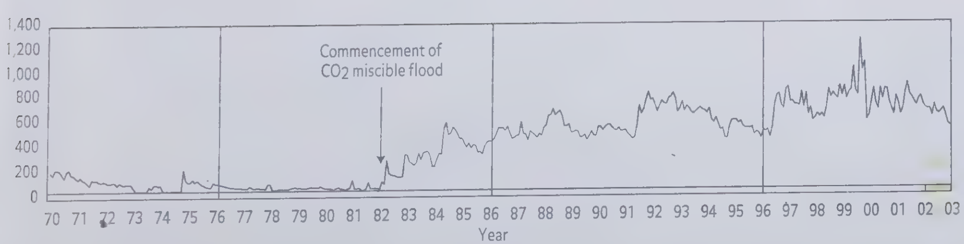
Central Area

At Joffre, CO_2 is sourced from a petrochemical complex and is injected along with water to maintain reservoir pressure and to promote the flow of additional oil volumes to the wellbore.

Since inception in 1982, this project has produced 3.9 million barrels of light crude oil. Net CO_2 injection averaged two mmcf per day in 2003. Any produced CO_2 volumes are recycled, while the CO_2 that remains in the ground replaces the newly swept oil. This process permanently "sequesters" a portion of Alberta's greenhouse gas emissions, an objective for both industry and government.

Joffre is a valuable technical and economic test bed for technology transfer to Penn West's larger, longer term enhanced oil recovery programs. The Company is experimenting with ways to improve the mobility control over injected CO_2 and to reduce channelling.

During 2003, Penn West brought two new injection production patterns on stream at Joffre, for a total of 15 patterns. Injection began in September, and production response is expected in 2004.



Tertiary Oil Unit Daily Average Oil Production (bbls per day)

Pembina Cardium Oil

Following several years of consolidation and moderate drilling at Pembina, Penn West expanded activity to 170 new wells in 2003, while adding 80 wells for water injection and increasing water injection. Penn West has reduced development costs by directionally drilling new wells from existing well pads, which also has environmental and landowner benefits in terms of less surface disturbance.

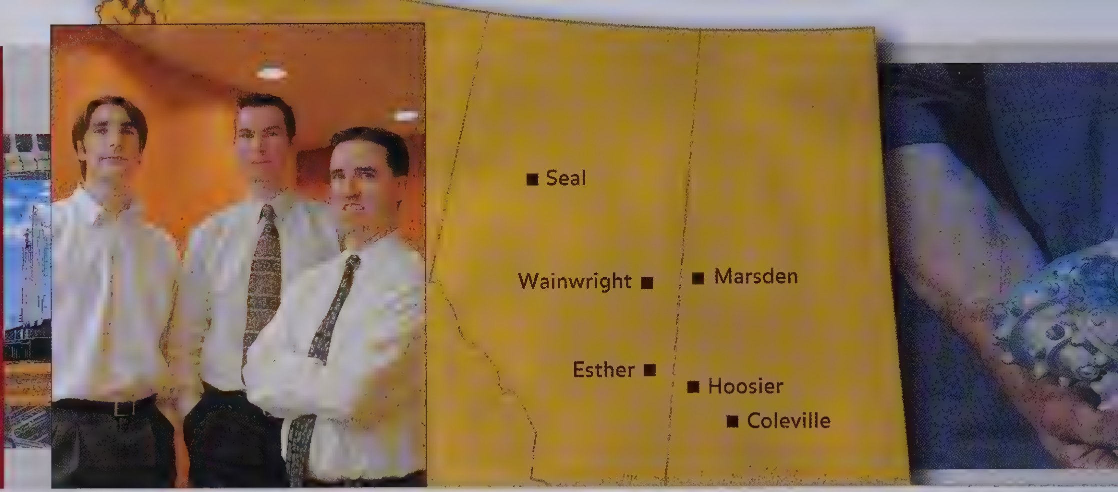
Penn West's working interests in the Pembina Cardium pool, acquired over a number of years, plus interests in adjoining Cardium pools, give the Company control over a resource estimated at more than two billion barrels of original oil-in-place. Each percentage increase in the resource recovery therefore adds in excess of 20 million barrels to the Company's net proved reserves.

Capital spending in the Pembina area is budgeted at \$80 million in 2004, funding a further 100 water injection conversions and the drilling of approximately 60 new producing wells. These activity levels will continue for several years, leading to 40 acre well spacing over much of the area operated by Penn West.

Following waterflood optimization and infill drilling, Penn West is evaluating the implementation of a CO_2 miscible flood to enhance oil recovery from the Pembina Cardium reservoir. To facilitate this evaluation, Penn West began planning for an eight well CO_2 pilot project in 2003. To date, Penn West has completed a detailed geological and engineering review of the prospective reservoir, designed both downhole and surface production facilities and received approval from the Alberta Energy and Utilities Board to launch a pilot CO_2 miscible flood. Work will commence in 2004 on the \$16 million pilot consisting of two back to back five spot well patterns on 20 acre spacing. The pilot will confirm the tertiary recovery process, mobilization of oil, response time, miscible flood breakthrough, production volumes, decline rates and potential commercial economics. A successful CO_2 miscible flood could double current recoveries anticipated under primary and secondary recovery.

Penn West is currently working to secure a high volume CO_2 source. The Alberta and Federal governments are important partners. Both governments see "sequestering" the CO_2 injected in miscible floods as one way to help meet objectives to reduce greenhouse gas emissions.

If the required infrastructure can be developed, we believe that many other light oil fields will come under CO_2 miscible flood. Penn West plans to be at the forefront of this innovation.



Heavy Oil

Penn West believes there is significant upside potential for heavy oil in western Canada. More effective seismic technology, horizontal drilling and improving well completion methods have all improved heavy oil economics. Penn West now has a decade of experience in conventional heavy oil. The Company's combination of undeveloped lands and producing pools creates a large inventory of low risk exploration, development and exploitation opportunities. Many heavy oil pools remain on primary recovery, offering potential for secondary and tertiary recovery to increase reserves and maintain production rates for many years to come.

Plains Heavy Oil

In 2003, Penn West drilled 129 conventional heavy oil wells while conducting a major seismic program in preparation for increased activity levels. At Wildmere/Wainwright, the Company continued its Sparky infill drilling program and began step out exploratory drilling based on new seismic data. At Hoosier, Penn West drilled 60 Bakken wells. In 2004 the Company plans to drill 50 to 60 wells at Hoosier targeting the Bakken, Sparky and other Mannville zones, while continuing to augment its land base and acquire further seismic.

Seal Heavy Oil

Penn West's evolving heavy oil project at Seal offers good potential for significant reserves and production volume growth. In early 2003, the Company drilled four low cost, vertical stratigraphic test wells. This process identified about 2,000 acres of prospective lands. Following this lead, Penn West drilled four horizontal wells to confirm significant new pool discoveries.

The Bluesky formation at Seal contains oil that is 10 degrees API average gravity and can be brought to the surface by cold pumping. Surface facilities at Seal consist of single well batteries, and production is trucked to an area terminal. Before year end 2003, Penn West applied for special royalty treatment of Seal's production from the provincial regulator.

Penn West is planning to drill several further vertical evaluation wells to prove up new prospects identified by seismic. Currently less than 10 percent of our lands at Seal have been explored. Discoveries will be followed by further development wells in late 2004 or 2005. Current spacing is one well per section, but on approval of full development, well density will increase to five to 15 wells per section.

Operating Statistical Overview

1. Capital Expenditures

($ millions)

	2003	2002	2001
Net property acquisitions	$ 0.3	$ 230.3	$ 233.0
Land acquisition and retention	47.4	42.5	43.2
Drilling and completions	349.6	149.3	201.7
Facilities and well equipping	191.4	134.2	134.3
Geological and geophysical	18.1	15.6	19.9
Other	1.3	1.4	1.4
Capital expenditures	$ 608.1	$ 573.3	$ 633.5

2. Undeveloped Land Base

(000s of acres at year end)

	2003	2002	2001
Gross acres	5,538	4,402	3,672
Net acres	5,313	4,158	3,381
Average working interest (%)	96	94	92

3. Drilling Results

	2003		2002		2001	
	Gross	Net	Gross	Net	Gross	Net
Natural gas	307	299	209	197	274	237
Oil	337	308	112	96	118	97
Dry	106	106	44	42	61	57
Total wells	750	713	365	335	453	391
Average working interest (%)		95		92		86
Success rate (%)		85		87		85

4. Reserve Estimates

a) Reserve category splits under forecast prices and costs:

Reserve Estimates Category	Light and Medium Oil (mmbbls)	Heavy Oil (mmbbls)	Natural Gas (bcf)	Natural Gas Liquids (mmbbls)
Proved				
Developed producing	111.2	20.6	577.5	12.7
Developed non-producing	12.7	0.1	57.5	1.1
Undeveloped	28.7	1.4	62.8	1.5
Total proved	152.6	22.1	697.8	15.3
Probable	24.0	6.3	115.5	2.0
Total proved plus probable (1)	176.6	28.4	813.3	17.3

(1) Working interest reserves before royalties.

Penn West's reserve estimates have been calculated in compliance with the newly implemented National Instrument 51-101 Standards of Disclosure (NI 51-101). These new NI 51-101 standards establish a higher mandated confidence interval for proved and probable reserves. Under NI 51-101, proved reserve estimates are defined as having a 90 percent probability that actual reserves recovered over time will equal or exceed proved reserve estimates. For probable reserves under NI 51-101, there are now equal (50 percent) probabilities that the actual reserves to be recovered will be less than or greater than the proved plus probable reserves estimate.

In accordance with NI 51-101, proved undeveloped reserves have been recognized in cases where plans are in place to bring the reserves on production within a short, well-defined time frame. Proved undeveloped reserves often involve infill drilling in existing pools. It should be noted that no proved or probable reserves have been booked by the Company for coalbed methane or for CO_2 miscible flooding in the Pembina area.

Penn West's reserves have been 100 percent evaluated by independent third party engineers. Major properties, representing 91 percent of the Company's total proved plus probable reserves, were evaluated either by McDaniel & Associates Consultants Ltd. or by Gilbert Laustsen Jung Associates Ltd. The balance of proved plus probable reserves was evaluated by the independent engineering firm Resources West Inc.

Additional reserve disclosure tables, as required under NI 51-101, will be contained in the Annual Information Form that will be filed on SEDAR.

b) Reconciliation of Company working interest reserves by principal product type under forecast prices and costs:

	Oil and Liquids			Natural Gas			Barrels of Oil Equivalent		
Reconciliation Items [1]	Proved (mmbbls)	Probable (mmbbls)	Proved Plus Probable (mmbbls)	Proved (bcf)	Probable (bcf)	Proved Plus Probable (bcf)	Proved (mmboe)	Probable (mmboe)	Proved Plus Probable (mmboe)
December 31, 2002	211.3	37.6	248.9	896.8	115.9	1,012.7	360.8	56.9	417.7
Extensions	15.3	2.0	17.3	72.2	16.3	88.5	27.4	4.7	32.1
Improved recovery	0.1	-	0.1	0.7	-	0.7	0.2	-	0.2
Technical and economic revisions	(22.4)	(7.8)	(30.1)	(143.7)	(17.1)	(160.8)	(46.3)	(10.6)	(56.9)
Discoveries	1.3	0.1	1.3	0.2	0.1	0.3	1.3	0.1	1.4
Acquisitions	1.8	0.5	2.3	1.4	0.3	1.7	2.1	0.5	2.6
Dispositions	(0.6)	-	(0.6)	(9.0)	-	(9.0)	(2.1)	-	(2.1)
Production	(16.9)	-	(16.9)	(120.9)	-	(120.9)	(37.0)	-	(37.0)
December 31, 2003	190.0	32.4	222.4	697.8	115.5	813.3	306.3	51.6	357.9

(1) Columns may not add due to rounding.

The reserve estimates contained in Table 4b) are company working interest reserves before the deduction of Crown royalties. A net reserve reconciliation after royalties will be included in the Company's Annual Information Form.

Negative proved reserve revisions totalled 46 million barrels of oil equivalent, or approximately 13 percent of the opening balance. Of this amount, approximately four million barrels of oil equivalent or one percent of the opening balance relates to the elimination of reserves with a remaining life in excess of 50 years, where Penn West expects to recognize these reserves in subsequent years. An additional three percent is related to the transfer of reserves from proved to probable to reflect stricter guidelines for the timing of bringing undeveloped reserves onstream. The remaining reduction of approximately nine percent reflects technical revisions based on NI 51-101 standards and reservoir performance. These adjustments cover a number of properties, with the largest single property revision representing less than one percent of the total reduction of 13 percent.

Proved plus probable reserves of 357.9 million boe at the end of 2003, were eight percent lower than established reserves (proved plus 50 percent probable) of 389.3 million boe, at the end of 2002.

c) Net present values of future net revenue before income taxes under forecast prices and costs ($ millions):

		(Discounted)	
Reserve Category	5%	10%	15%
Proved			
Developed producing	$ 2,346	$ 1,976	$ 1,728
Developed non-producing	247	162	121
Undeveloped	284	160	87
Total proved	2,877	2,298	1,936
Probable	446	295	214
Total proved plus probable	$ 3,323	$ 2,593	$ 2,150

Net present values are net of wellbore abandonment liabilities and are based on the price assumptions that are contained in the following table.

d) Summary of pricing and inflation rate assumptions as of December 31, 2003 under forecast prices and costs:

Year	WTI Cushing Oklahoma (US$/bbl)	Edmonton Par Price 40° API (Cdn$/bbl)	Hardisty Heavy 12° API (Cdn$/bbl)	Cromer Medium 29° API (Cdn$/bbl)	Natural Gas AECO Gas Price (Cdn$/GJ)	Edmonton NGL Mix (Cdn$/bbl)	Inflation Rates (%)	Exchange Rate (US$/Cdn$)
Historical								
2000	30.31	44.72	27.80	40.10	5.32	35.70	2.7	0.674
2001	25.97	39.60	18.05	32.22	5.15	31.60	2.6	0.646
2002	26.10	39.95	27.60	34.93	3.86	26.20	2.2	0.637
2003	30.95	43.10	27.45	36.90	6.30	33.80	2.0	0.715
Forecast								
2004	29.00	37.70	22.70	32.20	5.50	27.90	2.0	0.750
2005	26.50	34.30	21.55	29.71	5.19	25.50	2.0	0.750
2006	25.50	33.00	21.56	28.84	4.87	24.50	2.0	0.750
2007	25.00	32.30	20.63	28.06	4.68	23.80	2.0	0.750
2008	25.00	32.30	20.39	27.97	4.53	23.70	2.0	0.750
Thereafter*	2%	2%	2%	2%	2%	2%	2.0	0.750

*0% after 2023.

e) Future development costs under forecast prices and costs ($ millions):

Year	Proved Future Development Costs
2004	$ 196
2005	100
2006	57
2007	4
2008	20
2009 and subsequent years	34
Undiscounted total	$ 411
Discounted @ 10%/year	$ 349

Marketing

Natural Gas Marketing

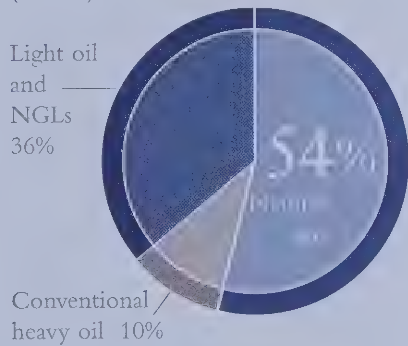
In 2003, Penn West received an average sales price of $6.26 per mcf, an increase of 65 percent from the average price of $3.79 per mcf in 2002. Penn West continues to control its natural gas portfolio with direct marketing by the Company representing 84 percent, while the remaining 16 percent is sold to aggregator pools. On average, the Company hedged approximately 10 percent of its natural gas production in 2003.

The Company continues to maintain a significant weighting to the Alberta market, as this market offers a premium netback relative to most other indices.

The Company makes limited use of short term financial instruments at various times in the commodity price cycle to manage downside risk. The Company optimizes netbacks by applying the following natural gas marketing principles:

> Ensuring receipt transportation is balanced with supply;
> De-contracting from aggregators wherever it makes economic sense;
> Pursuing low risk, high netback indices; and
> Limiting marketing arrangements to creditworthy counterparties.

2003 Production Mix
(% boe)



Oil Marketing

West Texas Intermediate (WTI), the benchmark for crude oil, averaged US$31.04/bbl in 2003, an approximate 20 percent increase over 2002. Tightening supply relative to global demand continues to support crude prices in 2004 as North American inventories remain at lower than normal levels.

Penn West received an average price of $36.10 per barrel for its crude oil and NGL production. On average, the Company hedged approximately 40 percent of its liquids production in 2003.

The Company's overall quality of crude oil averaged 31° API in 2003. Light and medium oil and NGLs made up 36 percent of Penn West's total production, with an average quality of 37° API. Heavy oil, at 17° API, accounted for 10 percent of the Company's production. The Company's light and heavy oil netbacks remained strong throughout 2003 despite wider differentials between WTI and Canadian postings. Penn West continues to sell most of its production at the field level to various refiners and marketing companies. Where appropriate, the Company increases netbacks by:

> Blending;
> Optimizing field deliveries;
> Consolidating low delivery batteries;
> Managing transportation and terminal fees; and
> Establishing credit support with all counterparties.

Community Responsibility and Involvement

Penn West gives back to the communities in which it works. In its charitable donations and activities the Company strives to remain in tune with the needs of those communities, particularly in relation to unfolding events and changing circumstances.

In 2003, Penn West donated to 190 different community groups and charitable organizations. Combined spending was higher than in 2002, in keeping with the Company's growth. The United Way, the YWCA of Regina, the University of Alberta and Mount Royal College were important recipients in 2003.

Penn West responded to the crisis in Western Canada's cattle industry by actively supporting Alberta and Saskatchewan ranchers. In order to help promote beef consumption and raise awareness of the issue, Penn West was the lead sponsor of The Great, Eh! beef support drive in Drayton Valley in September. The Company purchased beef from local businesses, booked the city's agri-centre, and together with other local groups, hosted a lunch that was attended by 3,000 area residents. In August, Penn West, together with several other companies, purchased large amounts of beef in Saskatchewan and donated the meat to homeless shelters in several provincial cities.

Two-thousand-three was the third year of a five year program of support to the Alberta Children's Hospital Foundation. This support will total $350,000 from Penn West and $150,000 from Penn West's senior management, and includes the financing of space and equipment to help improve the healing environment in the Children's Hospital.

Environment

During 2003, Penn West continued to implement and extend its wide ranging environmental programs, which encompass air emissions reduction, fresh water withdrawal reductions, resource conservation, stakeholder communication, carbon dioxide (CO_2) sequestration and site abandonment/reclamation. Penn West is committed to minimizing the environmental impacts from oil and natural gas operations, and to involving stakeholders throughout the exploration, development, production and abandonment processes.

Penn West's Environmental Policy and Environmental Management Plan (EMP) encompasses the full range of air, water, soil and waste issues associated with industry operations. The Company's Environmental Operation Guidelines are used to train Penn West's employees in the practical and economic implications of the EMP. Many aspects of oil and natural gas industry operations are subject to various environmental regulations under provincial and federal legislation. Penn West's continuing policy is to meet or exceed all such laws, regulations and standards.

Penn West's ongoing environmental activities include the following:

Resource Conservation and Plant Site Emissions

Reducing the flaring and venting of natural gas produced in association with oil production or during well testing is a significant priority of the industry and the provincial regulator. Penn West began a widespread effort in this regard in 1999, beginning with a Company wide analysis of flaring and venting, followed by conversion of dozens of wells and facilities from flaring or venting to production. Penn West's production of associated or solution gas, and percentage of conservation, continued to increase in 2003. Penn West's natural gas conservation rate has increased by three percent since 1999 and going into 2004 remains above the industry's average conservation rate.

As a major natural gas producer, Penn West constructs state-of-the-art new natural gas processing facilities while upgrading and modernizing acquired plants. The recent expansion of the Wildboy plant included low emissions compressors. The expansion application triggered no issues with B.C.'s ministry of environment. Several of Penn West's smaller gas plants, including Vista and Paddle Prairie, have over the past several years been refurbished or have received new, lower emissions equipment. Extensive refurbishment in 2002 of Penn West's largest facility, Minnehik-Buck Lake, included installation of cogeneration equipment to produce electricity and utilize waste heat, therefore reducing total site emissions and improving efficiencies.

CO_2 Emissions Reduction and Sequestration

Penn West has for several years participated in the Voluntary Challenge and Registry, a cooperative effort by industry, government and environmental organizations to identify and reduce greenhouse gas emissions, such as CO_2. Penn West maintained Gold Level Reporter Status during 2003. While it is difficult for a growing company such as Penn West to reduce the absolute volume of emissions, Penn West has reduced emissions intensity, or its emissions per unit of production by 7.5 percent below 1996 levels. With the CO_2 injection credit included, Penn West's emission intensity is 10.8 percent below the 1996 level.

This was accomplished in part through the programs described above. Additionally, Penn West is an industry leader in planning and testing the infrastructure required to inject and permanently "sequester" large volumes of CO_2 in producing or depleted hydrocarbon reservoirs. Penn West's CO_2 miscible flood at Joffre is one of only two such commercial scale projects in Canada. It currently injects a net 34,100 tonnes of CO_2 per year. The project provides valuable insight into transferring this technology to much larger light oil producing pools, such as the Pembina Cardium.

Currently Penn West sequesters volumes equivalent to one percent of the Company's total estimated CO_2 equivalent emissions. This ratio could climb significantly as the Company develops additional CO_2 miscible flood projects. In 2004, Penn West plans to launch a pilot scale CO_2 miscible flood at Pembina. If successful, this could lead to a much larger program with potential to sequester very significant volumes of CO_2.

Concurrently, Penn West is participating in a cooperative industry-government effort to develop a cost effective system to source large volumes of CO_2 currently emitted at oil sands operations, and transport them by pipeline for injection into producing oil fields in central Alberta. CO_2 injection as part of a miscible flood program promises significant benefits to enhanced oil recovery, and is also a potential source of long term revenue if Alberta develops a commercial CO_2 emissions trading regime.

Other

Penn West continued its proactive management of site and facility abandonment issues and liabilities through the auditing of batteries, compressor stations, gas plants and other major facilities. The Company performs environmental audits as part of its due diligence of field facilities that may be acquired. These measures prompt environmental improvements where required, such as site reclamations and increased environmental controls. The Company excludes abandoned wells from new acquisitions, requiring the vendor to manage and fund decommissioning.

Penn West's environmental programs earned Platinum Status in 2002 and in 2003 with the Canadian Association of Petroleum Producers' Environment, Health and Safety Stewardship program. Penn West will continue to improve and extend its environmental programs throughout 2004, including communications with stakeholders.

Management's Discussion and Analysis

For the year ended December 31, 2003

Notice Regarding Forward-Looking Statements

This document contains certain forward-looking statements that can generally be identified as such because of the context of the statements. Forward-looking statements may contain words such as forecasts, expects, anticipates, plans, intends, projects, estimates, or words of a similar nature. Results may differ materially from those expressed or implied by the forward-looking statements as a result of known and unknown risks, uncertainties and other factors.

Such factors include, among others:

> Changes in general economic, market and business conditions which will impact demand for and market prices of the Company's products;

> The ability of the Company to implement its business strategy;

> Availability and cost of borrowing;

> The ability of the Company to complete its capital programs;

> The ability of the Company to transport its products to market;

> Potential delays or changes in plans with respect to exploration or development projects;

> The success of exploration and development activities;

> The accuracy of reserve estimates;

> Actions by governmental authorities, government regulations and the expenditures required to comply with them (especially safety and environmental laws and regulations);

> Competitive actions of other entities, including increased competition from other oil and gas companies or from companies that provide alternative sources of energy; and

> The occurrence of unexpected events such as fires, blowouts, freeze-ups, equipment failures and other similar events directly or indirectly affecting assets, and/or daily operations.

Readers are cautioned that the foregoing list of important factors is not exhaustive. Although the Company believes that the expectations conveyed by the forward-looking statements are reasonable based on information available on the date the statements are made, events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements.

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited consolidated financial statements and accompanying notes, prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A is dated March 12, 2004.

Other key financial and statistical information is summarized on pages 57 and 58 of this report.

Cash flow, cash flow per share – basic and cash flow per share – diluted are considered non-GAAP measures and may not be comparable to similar measures provided by other issuers. Management utilizes cash flow as a key measure to assess financial performance and the ability of the Company to finance future capital expenditures.

Business Environment

Natural gas prices continued to be strong in 2003. Key contributors included concerns about overall North American inventory levels, declining confidence in the oil and natural gas industry's ability to grow supply, and increased demand due to cooler than normal temperatures experienced in the fourth quarter.

The Company maintains significant weighting to the Alberta natural gas market, as this market offers a premium netback relative to others. Direct marketing by the Company represented 84 percent of natural gas sales with the remaining 16 percent sold to aggregator pools. In 2003, the Company hedged approximately 10 percent of its natural gas production.

West Texas Intermediate (WTI), the benchmark for crude oil, averaged US$31.04 per barrel in 2003, a 20 percent increase over 2002. This increase was attributable to several factors, including OPEC's successful production management, strong Asian demand, delayed return of Iraqi production and supply disruptions in Venezuela and Nigeria. The Company hedged approximately 40 percent of its 2003 oil production using costless collars.

Canadian heavy oil differentials widened in absolute terms compared to 2002 due primarily to the higher WTI crude oil prices. The Company continues to sell most of its conventional heavy production at the field level to various refiners and marketing companies.

The 2003 year end CDN$/US$ exchange rate increased by 22 percent to $0.774 compared to $0.633 at the end of 2002. The Canadian dollar's strength was the result of various factors, including continuing differences between Canadian and U.S. interest rates, the U.S. current account deficit, and the U.S. economic slow down.

Penn West has a proved management team, dedicated employees and an established business plan. In terms of production, cash flow, reserves and market capitalization, the Company has progressed from a very small producer in 1992 to the top ranks of independent oil and natural gas producers in Western Canada. We have focused on a disciplined approach to business that stresses cost control and product balance. Using this discipline, we have shown the ability not only to explore for and develop reserves of crude oil and natural gas, but also to acquire and optimize producing fields of crude oil and natural gas. We have a diverse and strong asset base in the Western Canada

Sedimentary Basin divided into five core areas ranging from southern Saskatchewan to regions bordering the Northwest Territories. Our vision is to create shareholder value through economically prudent growth in:

> Production of crude oil and natural gas;

> Reserves of crude oil and natural gas; and

> Cash flow that results in increased profitability.

Using our established business plan, we achieved record cash flow per share and average annual production in 2003 without dilution of our shareholders, as outlined in the table below.

5. *Shareholder Value Measures*

Years ended December 31

	2003	2002	2001
Daily production per thousand shares (boe)	1.9	1.9	1.8
Cash flow per share ($)	15.11	8.70	11.72
Ratio of year end bank debt to annual cash flow	0.5	1.3	0.9

In 2003, the Company achieved another milestone – one billion dollars of accumulated retained earnings, accomplished in just over a decade of operations under the existing management team. One component of our business plan is to maintain a strong balance sheet and thus the flexibility to take advantage of opportunities to create shareholder value. The relatively high commodity price environment in 2003 reduced the opportunity for growth through cost effective acquisitions. As a result, the Company focused on organic growth through the drill bit. Early in the year, the Company recognized an opportunity to augment this organic growth strategy and achieve strong returns on investment through a share buy-back program. In late February 2003, Penn West implemented a Normal Course Issuer Bid. Under this program, the Company purchased 1,249,000 shares for $53 million ($42.25 per share, average), representing 2.3 percent of the common shares outstanding at the time the Bid was announced. In March 2004, a subsequent Normal Course Issuer Bid was announced. A maximum of five percent of the issued and outstanding common shares of the Company, or 2,689,796 shares, may be purchased for cancellation during a one year period.

An initiative approved by shareholders at the Annual and Special Meeting in May 2003 was the introduction of a cash payment alternative under the stock option plan. This alternative provides Penn West option holders the right to elect to receive cash for vested stock options. In 2003, the Company paid approximately $13.6 million under this initiative. Through the combination of the Normal Course Issuer Bid and the option cash payment alternative, the Company achieved a year-over-year reduction in shares outstanding from 53,732,540 to 53,692,290. In addition to the payments under these programs, the Company also reduced bank debt to $442 million from $598 million at the end of 2002.

Recognizing the strength of commodity prices at the end of 2003, the record level of 2003 cash flow, and a favourable 2004 outlook, the Board of Directors approved a special dividend of $1.50 per share and the introduction of a quarterly dividend of $0.125 per common share on November 19, 2003. These dividends were payable to shareholders of record at the close of business on December 15, 2003 and were paid on January 2, 2004. On March 2, 2004, the Company declared a quarterly dividend of $0.125 per common share that will be payable on April 1, 2004 to shareholders of record at the close of business on March 15, 2004.

Activity to date and favourable commodity prices indicate that Penn West will have financial flexibility in 2004. On February 18, 2004, the Company took advantage of its strong balance sheet and closed the acquisition of properties that produce 10,000 boe per day of conventional heavy oil and natural gas production. These properties are an excellent fit with our existing southwest Saskatchewan core area properties and we are optimistic that they will provide strong returns to our shareholders.

Penn West has received several representations from its shareholders regarding strategic alternatives and maintaining the status quo. On March 1, 2004, the Board resolved to review three alternatives examining the benefits and challenges with regard to the following options:

1) Maintaining the status quo and continuing the Company's strategic direction as an independent oil and natural gas exploration and development company;

2) Converting the Company in whole or in part into an income trust. In this regard, the Board instructed legal counsel to obtain an advance ruling from Canada Customs and Revenue Agency regarding the tax consequences of a potential conversion to an income trust. Receipt of a satisfactory ruling will be a material consideration in pursuing this alternative; and

3) Consider other strategic alternatives including a sale or merger of the Company.

The factors that have contributed to our success include an extensive base of undeveloped land (over 5.3 million net acres at December 31, 2003), highly trained and motivated in house professional and technical staff, and a strong balance sheet that provides the flexibility to pursue a strategy of either organic growth or growth through cost effective acquisitions. The application of financial discipline has also been a key factor in achieving strong returns on investment.

The Company's three year financial returns are summarized in the table below:

6. Performance Indicators

Years ended December 31

	2003	2002	2001
Return on capital employed (%)	**16.7**	7.2	12.8
Return on equity (%)	**29.9**	13.2	24.9

7. Oil and Natural Gas Revenues

Years ended December 31

($000s)	2003	2002	2001
Light oil and natural gas liquids	$ 486,057	$ 424,277	$ 363,174
Conventional heavy oil	124,446	102,379	81,145
Total liquids	610,503	526,656	444,319
Natural gas	757,320	460,318	631,862
Total	$ 1,367,823	$ 986,974	$ 1,076,181

8. 2003 Increases (Decreases) in Gross Revenues

($000s)	
Gross revenues – 2002	$ 986,974
Increase in light oil and liquids production	23,887
Increase in light oil and liquids price	37,893
Increase in conventional heavy oil production	6,387
Increase in conventional heavy oil price	15,680
Decrease in natural gas production	(1,919)
Increase in natural gas price	298,921
Gross revenues – 2003	**$ 1,367,823**

Revenues from light oil and liquids increased 15 percent to $486 million in 2003 from $424 million in 2002. This increase was attributable to higher production volumes and higher average prices. The Company's average light oil liquids price increased nine percent to $37.08 per barrel in 2003 from $34.04 per barrel in 2002, and the average daily production of light oil and liquids increased five percent to 35,916 barrels per day in 2003 from 34,151 barrels per day in 2002.

Revenues from conventional heavy oil increased 21 percent to $124 million in 2003 from $102 million in 2002. This increase was attributable to higher production volumes and higher average prices. The Company's average conventional heavy oil price increased 15 percent to $32.73 per barrel in 2003 from $28.39 per barrel in 2002, and the average production of conventional heavy oil increased five percent to 10,416 barrels per day in 2003 from 9,882 barrels per day in 2002.

Revenues from natural gas increased 65 percent in 2003 to $757 million from $460 million in 2002. This increase was due to significantly higher prices. Natural gas production of 331 mmcf per day in 2003 compares to production of 333 mmcf per day in 2002, and average natural gas prices increased 65 percent to $6.26 per mcf in 2003 from $3.79 per mcf in 2002.

9. Royalty Expenses

Years ended December 31

		2003	2002	2001
Royalties, net of Alberta Royalty Credit ($000s)	$	265,132	$ 188,898	$ 222,003
Average rate ($/boe)	$	7.15	$ 5.20	$ 6.47
Percentage of gross revenues		19%	19%	21%

The average royalty rate Penn West incurred in 2003 was 19 percent, the same rate experienced in 2002. The royalty rate comprises an oil and liquids royalty rate of 16 percent in 2003 compared to 17 percent in 2002 and a natural gas royalty rate of 22 percent in 2003 compared to 22 percent in 2002. Year-to-year royalty rates vary with commodity prices and the proportion of oil production relative to gas production.

10. Operating Expenses

Years ended December 31

		2003	2002	2001
Operating expenses ($000s)	$	245,572	$ 210,932	$ 173,014
Average cost ($/boe)	$	6.63	$ 5.81	$ 5.05
Percentage of gross revenues		18%	21%	16%

In 2003, operating costs averaged $6.63 per boe, a 14 percent increase from the average cost of $5.81 per boe achieved in 2002. This increase reflects the higher costs associated with oil properties acquired in the latter part of 2002 and general increases in field service costs.

Light oil and liquids operating costs increased 14 percent to $11.60 per barrel in 2003 from $10.21 per barrel in 2002. Operating costs for conventional heavy oil increased two percent to $7.59 per barrel in 2003 from $7.45 per barrel in 2002. Operating costs for natural gas in 2003 were $0.53 per mcf, an increase of 15 percent from $0.46 per mcf in 2002.

11. NETBACKS

Years ended December 31

	2003	2002	2001
Light oil and natural gas liquids			
Production (bbls/day)	35,916	34,151	29,683
Price ($/bbl)	$ 37.08	$ 34.04	$ 33.52
Royalties ($/bbl)	(6.15)	(5.99)	(5.65)
Operating expenses ($/bbl)	(11.60)	(10.21)	(9.32)
Netback ($/bbl)	$ 19.33	$ 17.84	$ 18.55
Conventional heavy oil			
Production (bbls/day)	10,416	9,882	9,201
Price ($/bbl)	$ 32.73	$ 28.39	$ 24.16
Royalties ($/bbl)	(4.55)	(3.84)	(3.52)
Operating expenses ($/bbl)	(7.59)	(7.45)	(6.99)
Netback ($/bbl)	$ 20.59	$ 17.10	$ 13.65
Natural gas			
Production (mmcf/day)	331.3	332.7	330.3
Price ($/mcf)	$ 6.26	$ 3.79	$ 5.24
Royalties ($/mcf)	(1.38)	(0.83)	(1.24)
Operating expenses ($/mcf)	(0.53)	(0.46)	(0.40)
Netback ($/mcf)	$ 4.35	$ 2.50	$ 3.60

In 2003, the Company received an average light oil and liquids netback of $19.33 per barrel, an average heavy oil netback of $20.59 per barrel, and a natural gas netback of $4.35 per mcf. The light oil and liquids netback was up eight percent from $17.84 per barrel due to higher average commodity prices, partially offset by higher royalties and by higher operating expenses experienced in the year. The heavy oil netback was up 20 percent from $17.10 per barrel in 2002 mainly due to higher prices, partially offset by higher royalties and operating costs. The netback for natural gas increased 74 percent from $2.50 per mcf mainly as a result of significantly higher natural gas prices and royalties in the year.

12. GENERAL AND ADMINISTRATIVE EXPENSES

Years ended December 31

	2003	2002	2001
Gross expenses ($000s)	$ 33,967	$ 26,182	$ 23,276
Operator recoveries ($000s)	(21,463)	(15,859)	(15,852)
Net expenses ($000s)	$ 12,504	$ 10,323	$ 7,424
Gross general and administrative expenses – average cost ($/boe)	$ 0.92	$ 0.72	$ 0.68
Percentage of gross revenues	2%	3%	2%
Net general and administrative expenses – average cost ($/boe)	$ 0.34	$ 0.28	$ 0.22
Percentage of gross revenues	1%	1%	1%

Gross general and administrative expenses increased due to growth in staff levels required to manage the Company's larger drilling program and asset base. In addition, the Company adjusted its salary and benefit programs during 2002 and 2003. Expressed on a unit of production basis, the gross general and administrative costs increased 28 percent, to $0.92 per boe in 2003 from $0.72 per boe in 2002. Net general and administrative expenses on a per unit basis increased 21 percent to $0.34 per boe in 2003 from $0.28 per boe in 2002.

13. Stock-Based Compensation

Years ended December 31

	2003	2002	2001
Stock-based compensation ($000s)	$ 48,002	–	–
Average cost ($/boe)	$ 1.30	–	–
Percentage of gross revenues	4%	–	–

At the Annual and Special Meeting of shareholders held in May 2003, the shareholders approved an amendment to the Stock Option Plan providing option holders the right to receive cash on the exercise of stock options. As a result, stock-based compensation costs of $48 million (2002 – nil) were recognized in 2003. Cash payments of $13.6 million were made on the exercise of 741,820 options. These payments were charged to the stock-based compensation liability.

14. Financing Expenses

Years ended December 31

	2003	2002	2001
Interest ($000s)	$ 11,870	$ 20,310	$ 26,706
Cash flow times interest coverage	69.5	23.8	24.0
Average cost ($/boe)	$ 0.32	$ 0.57	$ 0.78
Percentage of gross revenues	1%	2%	2%

Interest expense for the year ended December 31, 2003 amounted to $11.9 million, a decrease of 42 percent from $20.3 million in 2002. This decrease reflects lower debt levels in 2003 and the lower short term interest rates on both Canadian and U.S. denominated debt.

15. Depletion, Depreciation and Site Restoration Provision

Years ended December 31

	2003	2002	2001
Depletion and depreciation ($000s)	$ 287,224	$ 233,732	$ 185,320
Site restoration provision ($000s)	34,807	24,965	16,001
	$ 322,031	$ 258,697	$ 201,321
Average rate ($/boe)	$ 8.69	$ 7.13	$ 5.87
Percentage of gross revenues	24%	26%	19%

The depletion, depreciation and site restoration provision increased by 24 percent to $322 million in 2003 from $259 million in 2002. This was mainly the result of an increase in the fourth quarter 2003 depletion rate to $10.40 per barrel of oil equivalent (fourth quarter 2002 – $7.60). The average rate for the year increased by 22 percent to $8.69 per boe in 2003 from $7.13 per boe in 2002.

16. Foreign Exchange

Years ended December 31

	2003	2002	2001
Foreign exchange (gain) loss ($000s)	$ (95,574)	$ 4,482	$ –
Potential loss from written Canadian dollar calls ($000s)	12,686	–	–
Net foreign exchange (gain) loss ($000s)	$ (82,888)	$ 4,482	$ –
Average (gain) loss ($/boe)	$ (2.24)	$ 0.12	$ –
Percentage of gross revenues	6%	0.4%	0%

The Company converted a portion of its borrowings to U.S. dollars during 2002 at an average exchange rate of US$0.6392 for each Canadian dollar to capture the benefits of lower U.S. interest rates. As at December 31, 2003, the Company had $340 million of U.S. denominated debt. The translation of the outstanding U.S. dollar bank loans to Canadian dollars, using the year end exchange rate, resulted in an unrealized foreign exchange gain of $96 million for 2003, versus a loss of $4 million in 2002. This unrealized foreign exchange gain was reduced by the $13 million unrealized loss on Canadian dollar calls outstanding at December 31, 2003.

17. Taxes

Years ended December 31

	2003	2002	2001
Current income taxes ($000s)	$ 9,898	$ 82,021	$ 25,111
Future income taxes ($000s)	90,601	41,840	166,518
	$ 100,499	$ 123,861	$ 191,629
Effective tax rate	18%	42%	43%
Capital taxes ($000s)	$ 10,150	$ 11,031	$ 8,980

The provision for income taxes decreased by 19 percent to $100 million in 2003 from $124 million in 2002. This was the result of lower income tax rates enacted by Federal and Provincial authorities in 2003 and the partial taxability of the foreign exchange gain offset by higher income before taxes and the non-deductability of the stock-based compensation provision. The provision for income taxes includes current taxes payable of $10 million, which is down 88 percent from $82 million in 2002 as a result of higher than forecast capital expenditures and tax pool changes.

18. Tax Pools

At December 31

($ millions)	2003	2002	2001
Undepreciated capital cost (UCC)	$ 270.1	$ 440.6	$ 398.5
Cumulative Canadian oil and gas property expense (COGPE)	679.2	852.7	750.9
Cumulative Canadian exploration expense (CEE)	–	1.4	1.9
Cumulative Canadian development expense (CDE)	136.6	128.5	128.8
Other	–	0.7	2.2
Total tax pools	$ 1,085.9	$ 1,423.9	$ 1,282.3

19. Items Affecting Cash Flow and Net Income

Years ended December 31

	2003		2002		2001	
	$/boe	%	$/boe	%	$/boe	%
Oil and natural gas revenues	$ 36.91	100.0	$ 27.18	100.0	$ 31.39	100.0
Net royalties	(7.15)	(19.4)	(5.20)	(19.1)	(6.47)	(20.6)
Operating expenses	(6.63)	(18.0)	(5.81)	(21.4)	(5.05)	(16.1)
Net operating income	23.13	62.6	16.17	59.5	19.87	63.3
General and administrative expenses	(0.34)	(0.9)	(0.28)	(1.0)	(0.22)	(0.7)
Interest	(0.32)	(0.9)	(0.57)	(2.1)	(0.78)	(2.5)
Current and capital taxes	(0.54)	(1.4)	(2.56)	(9.4)	(0.99)	(3.1)
Cash flow from operations	21.93	59.4	12.76	47.0	17.88	57.0
Unrealized foreign exchange gain (loss)	2.24	6.1	(0.12)	(0.4)	–	–
Stock-based compensation	(1.30)	(3.5)	–	–	–	–
Depletion and depreciation	(8.69)	(23.6)	(7.13)	(26.3)	(5.87)	(18.7)
Future income taxes	(2.44)	(6.6)	(1.15)	(4.2)	(4.86)	(15.5)
Net income	$ 11.74	31.8	$ 4.36	16.1	$ 7.15	22.8

Cash flow increased by 75 percent to $813 million in 2003 from $463 million in 2002. Basic cash flow per share rose by 74 percent to $15.11 in 2003, compared to $8.70 in 2002.

Net income increased by 175 percent to $435 million in 2003 from $158 million in 2002. Basic net income per share increased by 171 percent in 2003 to $8.09 from $2.98 in 2002.

Market Risk Management

The Company is exposed to normal market risks inherent in the oil and natural gas business, including credit risk, commodity price risk, interest rate risk and foreign currency risk. The Company minimizes exposure to these risks using financial instruments. Financial instruments outstanding on December 31, 2003 are summarized in note 8 to the consolidated financial statements.

Credit Risk

Credit risk is the risk of loss if purchasers or counterparties do not fulfill their contractual obligations. All of the Company's receivables are with customers in the oil and natural gas industry and are subject to normal industry credit risk. In order to limit the risk of non-performance of counterparties to derivative instruments, the Company transacts only with financial institutions with high credit ratings and by obtaining security in certain circumstances.

Commodity Price Risk

Commodity price risk is the Company's most significant exposure. Crude oil prices are influenced by worldwide factors such as OPEC actions, supply and demand fundamentals and political events. Natural gas prices are generally influenced by oil prices and North American natural gas supply and demand factors. The Company manages these risks through the use of costless collars to a maximum of 50 percent of sales volumes.

Interest Rate Risk

The Company maintains its debt in floating-rate bank facilities resulting in exposure to fluctuations in short term interest rates. From time to time, the Company may increase the certainty of interest rates using financial instruments to swap floating interest rates to fixed interest rates.

Foreign Currency Rate Risk

Prices received for sales of crude oil and bank loans are referenced to or denominated in U.S. dollars. Accordingly, realized crude oil prices and debt levels are impacted by US$/CDN$ exchange rates. When appropriate, the Company may use financial instruments to fix future exchange rates to be realized.

Liquidity and Capital Resources

20. Capitalization

At December 31

	2003		2002		2001	
	$millions	%	$millions	%	$millions	%
Common share equity, at market	$2,586	80.8	$2,203	75.4	$1,866	75.3
Bank loan	442	13.8	598	20.5	556	22.4
Working capital deficiency	173	5.4	120	4.1	57	2.3
	$3,201	100.0	$2,921	100.0	$2,479	100.0

Penn West's closing market price on the Toronto Stock Exchange was $48.17 per share in 2003, $41.00 per share in 2002 and $35.40 per share in 2001. Total capitalization was $2.5 billion at year end 2001 and rose to the $3.2 billion level at year end 2003.

Penn West ended the year 2003 with lower debt levels and increased annual average production rates versus 2002. The strong balance sheet maintained during 2003 provides strength and flexibility to pursue a variety of strategic options for growth during 2004 and for the continued increase in shareholder value.

Penn West has an aggregate borrowing limit of $820 million on its loan facility with a syndicate of Canadian chartered banks. The Company had drawn $442 million at year end 2003. This loan facility is subject to an annual review by the lenders and requires no principal repayments provided that tangible net worth and cash flow coverage tests are met. Penn West believes it has ample coverage under these tests and anticipates that the loan facility will be renewed.

In February 2004, the Company closed the acquisition of properties producing 10,000 boe per day of conventional heavy oil and natural gas, and approximately 400,000 net acres of undeveloped land. The $234 million purchase price was financed by borrowings under the existing credit facilities. To accommodate the increased size of operations, the Company increased its existing operating loan facility to $100 million from $50 million.

Planned 2004 capital spending remains at $600 to $700 million to be funded from cash flow, estimated at $640 to $670 million, and existing credit lines.

Business Risks

The Company's exploration, development, production and acquisition activities are conducted in the Western Canada Sedimentary Basin and involve a number of business risks. These risks include the uncertainty of replacing annual production and finding new reserves on an economic basis, the instability of commodity prices, exchange rates and interest rates and the other factors previously discussed under "Notice Regarding Forward-Looking Statements."

To the extent practical, the Company mitigates these risks by employing highly trained and competent management and staff who manage these risks as follows:

- Balancing the production portfolio between oil and natural gas;
- Pursuing numerous investment opportunities, including:
  - Low risk development projects;
  - Moderate risk exploration plays;
  - Strategic acquisitions; and
- Maintaining low finding, operating and general and administrative costs.

The Company's management team believes that these principles, validated through Penn West's eleven year track record of growth and profitability, position the Company to continue on a track of sustained growth in production volumes and creation of shareholder value.

The oil and natural gas industry is subject to extensive government influence through taxation policies and environmental legislation. While taxation policy has remained relatively stable recently, there is always the potential for change.

The industry is also subject to extensive regulations imposed by governments related to the protection of the environment. Environmental legislation in Western Canada has undergone major revisions that have resulted in environmental standards and compliance becoming more stringent. The Company is committed to meeting its responsibilities to protect the environment wherever it operates, and has instituted a series of controls and procedures with respect to environmental protection that meet the standards of the Environmental Code of Practice published by the Canadian Association of Petroleum Producers.

Future Prospects and Outlook

Focusing in its five core areas, the Company continues to generate economic prospects through acquisitions, exploration, exploitation and development. The Company believes its extensive undeveloped land base and high quality, long life reserves provide opportunities for low risk growth in both reserves and production.

Penn West has provided positive earnings in each quarter for the last eleven years. Fiscal responsibility has always played a major role in the timing of actions taken by management and will continue to be important in the ongoing strategy for long term profitable growth. With commodity prices presently at relatively high levels and market expectations that they will remain relatively high, the Company believes it has a variety of capital spending options to achieve growth in production, reserves and, ultimately, shareholder value.

On February 18, 2004, the Company closed the acquisition of properties producing approximately 10,000 boe per day that included 7,000 barrels per day of conventional heavy oil and 18 mmcf per day of natural gas production. The purchase price of $234 million, subject to adjustments, included producing properties and approximately 400,000 net acres of undeveloped land located in our southwestern Saskatchewan core area. The acquisition will be absorbed within our existing capital spending targets of $600 to $700 million for 2004.

As noted above, the Board of Directors resolved to review strategic alternatives for the Company. With a high quality asset base, experienced management, a strong balance sheet and relatively high commodity prices, the Company believes it has strong opportunities for growth and value creation.

Forecast cash flow for 2004 is $640 to $670 million, or $11.80 to $12.30 per share based on commodity prices of US$30.00 per barrel of WTI and $5.80 per mcf for natural gas. At the end of 2003, the Company had hedged an average of 15,000 barrels per day of crude oil, and six mcf per day of natural gas for 2004. Under current forecasts, the Company expects to grow both production and reserves per share throughout 2004 through a combination of acquisitions, and exploration and development projects targeting both natural gas and crude oil prospects.

The results of operations and the forecast noted above are sensitive to changes in production, commodity prices, foreign exchange rates and interest rates. The table below summarizes those sensitivities.

21. *Sensitivities*

($ millions, except per share amounts)

	Impact on 2004 Cash Flow	Impact on 2004 Net Income
Change of:		
$1.00 per barrel in liquids price	$ 16.2	$ 10.2
Per common share	0.30	0.19
1,000 bbls per day in daily liquids production	9.5	3.6
Per common share	0.18	0.07
$0.10 per mcf in natural gas price	8.9	5.6
Per common share	0.16	0.10
10 mmcf per day in daily natural gas production	15.2	5.5
Per common share	0.28	0.10
$0.01 in US$/CDN$ exchange rate	11.6	7.3
Per common share	0.21	0.14
1% in prime interest rate	7.5	4.7
Per common share	$ 0.14	$ 0.09

Commitments

The Company has committed to certain payments over the next five years as follows:

($ millions)	2004	2005	2006	2007	2008	Thereafter
Natural gas transportation	25.7	14.0	9.9	3.9	3.7	13.2
Electricity	3.8	0.3	0.3	0.3	0.3	1.6
Office lease	3.3	1.4	0.8	0.1	0.0	0.0

Critical Accounting Estimates

The Company's significant accounting policies are detailed in note 1 to the consolidated financial statements. In the determination of financial results, the Company must make certain significant accounting estimates as follows:

Full Cost Accounting

The Company uses the full cost method of accounting for oil and natural gas properties. The Company has used this methodology consistently since the existing management team assumed responsibility for the Company in 1992. Generally, all costs of exploring and developing oil and natural gas reserves are capitalized and depleted against associated oil and natural gas production using the unit-of-production method based on the estimated proved reserves. The capitalization of exploration and development costs, excluding the cost of unevaluated properties, is limited to future net revenues from proved reserves less future financing, administration and income tax expenses. Any excess cost is charged against income.

Oil and Natural Gas Reserves

All of the Company's reserves were evaluated by one of the independent petroleum engineering consultants Gilbert Laustsen Jung Associates Ltd., McDaniel & Associates Consultants Ltd. and Resources West Inc. In 2003, reserves were determined in compliance with National Instrument 51-101. For more information on these standards, please refer to section 4 of this Annual Report. The evaluation of oil and natural gas reserves are, by their nature, based on complex extrapolations and models as well as other significant engineering, capital, pricing and cost assumptions. Reserve estimates are a key component in the calculation of depletion and the provision for site restoration and abandonment. In addition, reserves are a key component of value in the ceiling test. To the extent that the reserves value is less than the carrying amount of property, plant and equipment, a write down against income must be made.

Site Restoration and Abandonment

The Company utilizes independent environmental engineers to estimate the cost to restore and abandon production sites including processing and production facilities. The cost to abandon wells is estimated by the Company based on historical experience and industry data. Estimated costs reflect current costs, technology and legislation. These costs are charged against related oil and natural gas production as depletion and depreciation using the unit-of-production method. Changes to the estimated site restoration and abandonment costs impact these provisions.

Stock-Based Compensation

The Company has recognized the potential liability that could arise if all option holders elected the cash settlement alternative at the period end share price. Provision is made for all vested options at the period end plus the portion of future option vestings attributable to the period. The stock-based compensation expense of future periods will vary with share prices and changes in outstanding options.

Financial Instruments

Financial instruments determined by the Company to be hedges are accounted for as a component of the hedged item such as oil price, natural gas price, electricity or interest costs. The impact of a financial instrument hedge is not recognized in the financial statements until the underlying oil or natural gas production, power or interest is realized. Net income could change if these impacts were immediately recognized in the financial statements. The impact of financial instruments determined not to be hedges are fully recognized in the financial statements. There are, for certain financial instruments, several acceptable methods for determining a mark-to-market value at a point in time. These differences can directly impact reported results.

Future Accounting Pronouncements

Asset Retirement Obligations

Effective January 1, 2004, the Canadian Institute of Chartered Accountants issued a new accounting standard for asset retirement obligations. The new standard requires that the fair value of property abandonment and site restoration obligations be recognized as a liability on the balance sheet. The retroactive adoption of this standard will result in an increase in property, plant and equipment and site restoration and abandonment, and a reduction to future income taxes and retained earnings. It is not currently expected that future net income will be materially impacted by the implementation of this accounting standards.

Hedging Relationships

Effective January 1, 2004, this new accounting guideline establishes the conditions for when hedge accounting may be applied. It does not, however, establish the accounting treatment for hedges. The Company has determined that the application of this guideline will have no impact on the accounting for its existing financial instruments that are accounted for as hedges.

Full Cost Oil and Gas Accounting – Cost Center Impairment Test

The new accounting guideline, effective January 1, 2004, stipulates a new two-part assessment of cost centre impairment. The first part assesses the carrying amounts of the full cost asset pool, excluding unproved properties and future development projects, relative to the undiscounted cash flows from proved oil and natural gas reserves. The second part assesses the carrying amounts relative to the present value of proved and probable oil and natural gas reserves. As the Company's ceiling value was significantly in excess of carrying amounts at December 31, 2003, no impact is expected from the initial implementation of this new guideline.

Stock-Based Compensation

At the Annual and Special Meeting on May 20, 2003, the shareholders of the Company approved an amendment to the Stock Option Plan providing employees and directors the right to receive cash payments on the exercise of stock options. Accordingly, in the second quarter of 2003, the Company recognized stock-based compensation costs in the consolidated financial statements. Prior to the Stock Option Plan amendment, no amounts were charged against income for option grants, however certain proforma disclosures were made. Effective January 1, 2004, the accounting recommendations require that provision be made in the financial statements for stock-based compensation. As the Company commenced expensing stock options in the second quarter of 2003, there will be no future impact from these recommendations. For more information on stock-based compensation, please refer to notes 1 and 5 to the consolidated financial statements.

Management's Report

The consolidated financial statements of Penn West Petroleum Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of non-management directors, has reviewed these consolidated financial statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the consolidated financial statements.

Gerry J. Elms
Vice President, Finance
and Corporate Secretary

Todd H. Takeyasu
Treasurer

William E. Andrew
President

March 1, 2004

Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Penn West Petroleum Ltd. as at December 31, 2003, and 2002 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
March 1, 2004

KPMG LLP
Chartered Accountants

Consolidated Balance Sheets

December 31

($000s)	2003	2002
Assets		
Current		
Accounts receivable	$ 141,574	$ 145,587
Taxes receivable	26,257	–
Other	16,539	14,002
	184,370	159,589
Property, plant and equipment (Note 2)	2,953,658	2,632,831
	$ 3,138,028	$ 2,792,420
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	$ 248,174	$ 185,322
Taxes payable	–	94,274
Dividends payable	87,405	–
Stock-based compensation (Note 5)	22,111	–
	357,690	279,596
Bank loan (Note 3)	442,394	598,435
Deferred credits (Note 4)	67,563	41,264
Future income taxes (Note 6)	649,355	580,104
	1,159,312	1,219,803
Shareholders' equity		
Share capital (Note 5)	505,569	483,805
Retained earnings	1,115,457	809,216
	1,621,026	1,293,021
	$ 3,138,028	$ 2,792,420

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Chairman

D L Russell
Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31

($000s, except per share amounts)	2003	2002
Revenues		
Oil and natural gas	$ 1,367,823	$ 986,974
Royalties	(265,132)	(188,898)
	1,102,691	798,076
Expenses		
Operating	245,572	210,932
General and administrative	12,504	10,323
Interest on long term debt	11,870	20,310
Depletion and depreciation	322,031	258,697
Stock-based compensation (Note 5)	48,002	–
Unrealized foreign exchange (gain) loss	(82,888)	4,482
	557,091	504,744
Income before taxes	545,600	293,332
Taxes		
Capital	10,150	11,031
Current income (Note 6)	9,898	82,021
Future income (Note 6)	90,601	41,840
	110,649	134,892
Net income	434,951	158,440
Retained earnings, beginning of year	809,216	650,776
Net income	434,951	158,440
Dividends payable	(87,405)	–
Purchase of common shares (Note 5)	(41,305)	–
Retained earnings, end of year	$ 1,115,457	$ 809,216
Net income per common share (Note 7)		
Basic	$ 8.09	$ 2.98
Diluted	$ 7.98	$ 2.90

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flow

Years ended December 31

($000s)	2003	2002
Operating activities		
Net income	$ 434,951	$ 158,440
Items not involving cash		
Depletion and depreciation	322,031	258,697
Future income taxes	90,601	41,840
Unrealized foreign exchange (gain) loss	(82,888)	4,482
Stock-based compensation (Note 5)	48,002	–
Cash flow	812,697	463,459
(Increase) decrease in non-cash working capital (Note 9)	(114,632)	39,654
Payments for surrendered options (Note 5)	(13,572)	–
Cash from operating activities	684,493	503,113
Investing activities		
Additions to property, plant and equipment	(730,581)	(576,811)
Expenditures on abandonments	(14,314)	(10,937)
Proceeds on sales of property, plant and equipment	101,180	3,556
Decrease in non-cash working capital (Note 9)	58,207	22,872
Cash used in investing activities	(585,508)	(561,320)
Financing activities		
(Decrease) increase in bank loan	(73,153)	37,623
Issue of common shares	26,714	20,512
Purchase of common shares	(52,768)	–
Decrease in non-cash working capital (Note 9)	222	72
Cash (used in) from financing activities	(98,985)	58,207
Increase in cash	–	–
Cash and cash equivalents, beginning of year	–	–
Cash and cash equivalents, end of year	$ –	$ –
Interest paid	12,369	21,538
Income and capital tax paid	140,579	32,216

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

(all tabular amounts in $000s, except share and per share amounts)

1. Summary of significant accounting policies

These consolidated financial statements were prepared in accordance with generally accepted accounting principles in Canada. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

a) *Principles of consolidation*

The consolidated financial statements include the accounts of Penn West Petroleum Ltd. (the "Company") and all its wholly owned subsidiaries and partnerships.

b) *Other current assets*

Other current assets include deposits, prepayments and inventory. Inventories are valued at the lower of cost and net realizable value.

c) *Property, plant and equipment*

i) *Capitalized costs*

The full cost method of accounting for oil and natural gas operations is followed whereby all costs of acquiring, exploring and developing oil and natural gas reserves are capitalized. These costs include lease acquisition, geological and geophysical, exploration and development and related equipment costs. Proceeds from the disposition of oil and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such disposition results in a significant change in the depletion and depreciation rate.

ii) *Depletion and depreciation*

Depletion and depreciation of resource properties are calculated using the unit-of-production method based on production volumes before royalties in relation to total proved reserves as estimated by independent petroleum engineers. Natural gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves and excludes estimated salvage values and the cost of unevaluated property. Significant processing facilities, net of estimated salvage, are depreciated using the declining balance method over the estimated useful lives of the facilities.

iii) *Ceiling test*

The carrying amount of property, plant and equipment, net of recorded future income taxes and site restoration and abandonment costs, is limited to the sum of estimated future net cash flows from proved reserves and the cost, less impairment, of undeveloped properties. Estimated future capital costs, production-related general and administrative expenses, interest expenses, and applicable income taxes are deducted in determining estimated future net cash flows from proved reserves.

iv) Future site restoration and abandonment costs

A provision has been made for estimated future site restoration and abandonment costs calculated on the unit-of-production method over total proved reserves. The 2003 provision of $34.8 million (2002 – $25.0 million) is included in depletion and depreciation expense. Actual site restoration and abandonment expenditures are charged to the accumulated provision as incurred.

The estimates in ii) and iii) and iv) are based on sales prices, costs and regulations in effect at the end of the year.

d) Joint ventures

Many of the Company's exploration and development activities are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

e) Hedging activities

The Company may use financial instruments to hedge exposure to fluctuations in oil and natural gas prices, electricity costs and interest rates. Gains or losses on oil and natural gas related instruments are reported as adjustments to oil and natural gas revenue when the related production is sold. Gains or losses on electricity rate transactions are expensed when the related power is consumed. Gains or losses on interest rate hedging transactions are reported as adjustments to interest on long term debt over the period hedged. Gains or losses on foreign exchange hedging transactions are recognized as foreign exchange gain or loss.

Financial instruments not designated as a hedge, or not qualifying as a hedge, are recorded on the balance sheet as an asset or liability with changes to the mark-to-market value reflected in net income.

f) Enhanced oil recovery

The value of proprietary injectants is not recognized as revenue until re-produced and sold to third parties. The cost of injectants purchased from third parties for miscible flood projects is included in property, plant and equipment. Deferred injectant costs are amortized as depletion and depreciation over the period of expected future economic benefit on a straight-line basis. Costs associated with the production of proprietary injectants are expensed.

g) Foreign currency translation

Amounts denominated in foreign currencies are translated into Canadian dollars at the year end exchange rates. Gains or losses on translation are included in net income.

h) Stock-based compensation

The Company has a stock option plan and an employee stock savings plan, as described in Note 5.

At the 2003 Annual and Special Meeting, the shareholders approved amendments to the stock option plan, including granting holders the right to receive cash on the exercise of options. Due to this change, effective June 30, 2003, a stock-based compensation cost was measured for all options outstanding at intrinsic value and recognized as an expense. Stock-based compensation cost attributable to new option grants is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value of all outstanding options

between the grant date and the measurement date result in a change to stock-based compensation cost. As stock options vest, stock-based compensation cost is recognized on a prorata basis over the vesting period. Cash payments made on option exercises are charged against the stock-based compensation liability.

Prior to the plan amendment, the Company used the intrinsic value method to account for its Stock Option Plan. Option grants did not result in any recorded stock-based compensation cost as the exercise price of option grants was equal to the market price of the common shares on the grant date.

Costs in respect to the employee stock savings plan are expenses as incurred.

i) Revenue recognition

Revenues from the sale of crude oil, natural gas liquids and natural gas are recognized when title passes from the Company to the purchaser. Sales below or in excess of the Company's working interest share of production are recorded as inventory or deferred revenue, respectively.

j) Income taxes

The Company uses the liability method of accounting for future income taxes. Timing differences are calculated assuming that the financial assets and liabilities will be settled at their carrying amount. Future income taxes are computed on temporary differences using income tax rates that are expected to apply when future income tax assets and liabilities are realized or settled.

2. PROPERTY, PLANT AND EQUIPMENT

December 31,	2003	2002
Oil and natural gas properties, and production and processing equipment	$ 4,123,276	$ 3,516,532
Other	11,984	10,677
	4,135,260	3,527,209
Accumulated depletion and depreciation	(1,181,602)	(894,378)
Net book value	$ 2,953,658	$ 2,632,831

During the years ended December 31, 2003 and 2002, no overhead expenses were capitalized. The cost of unevaluated property excluded from the depletion base as at December 31, 2003 was $262.8 million (2002 – $196.3 million). At December 31, 2003, the Company's total estimated future site restoration costs, before any value recovered on salvage materials, were $429.9 million (2002 – $349.3 million).

3. BANK LOAN

December 31,	2003	2002
Bankers' acceptances	$ –	$ 61,265
LIBOR advances (2003 and 2002 – US$340 million)	442,394	537,170
	$ 442,394	$ 598,435

The Company has a credit facility arranged with a syndicate of Canadian chartered banks which is unsecured and bears interest at the prime rate or bankers' acceptance rates plus a stamping fee which varies between

87.5 and 117.5 basis points, depending on the debt-to-cash flow ratio. The maximum borrowing under the facility is $820 million consisting of a $720 million credit facility and a $100 million operating loan facility. The facility is subject to an annual review by the lenders at which time a lender can request conversion to a term loan with repayment in full after one year. As at December 31, 2003, the Company had outstanding letters of credit for $6.6 million (2002 – $9.9 million), that reduced the amount otherwise available to be drawn on the facilities.

4. DEFERRED CREDITS

December 31,	2003	2002
Site restoration and abandonment	$ 61,757	$ 41,264
Stock-based compensation	5,806	–
	$ 67,563	$ 41,264

5. SHARE CAPITAL

a) *Authorized*

i) Unlimited number of preferred shares issuable in one or more series.

ii) Unlimited number of voting common shares without nominal or par value.

b) *Issued*

Common shares	Number	Consideration
Balance, December 31, 2001	52,722,760	$ 463,293
Issued on exercise of stock options	951,450	18,188
Issued to employee stock savings plan	58,330	2,324
Balance, December 31, 2002	53,732,540	$ 483,805
Issued on exercise of stock options for common shares	1,208,750	26,714
Liability settlement on stock options exercised for shares	–	6,513
Purchase of shares under Normal Course Issuer Bid	(1,249,000)	(11,463)
Balance, December 31, 2003	**53,692,290**	**$ 505,569**

c) *Normal course issuer bid*

In February 2003, the Company announced its intention to make a Normal Course Issuer Bid (the "2003 Bid") through the facilities of the Toronto Stock Exchange. The 2003 Bid commenced on February 27, 2003 and continued until February 26, 2004. During this period, a maximum of five percent of the issued and outstanding common shares, 2,687,824 shares, were eligible for purchase and cancellation. A total of 1,249,000 shares were purchased under the 2003 Bid, at an average cost of $42.25 per share, and a total cost of $53 million of which $41 million was charged to retained earnings and $12 million was charged to share capital.

In March 2004, the Company announced a new Normal Course Issuer Bid (the "2004 Bid"), through the Toronto Stock Exchange. The 2004 Bid will commence on March 8, 2004 and will extend for a maximum of one year. A maximum of five percent of the issued and outstanding common shares of the Company, or 2,689,796 shares, may be purchased for cancellation.

d) Employee stock savings plan

The Company has an employee stock savings plan (the "Savings Plan") for the benefit of all salaried employees. Under the Savings Plan, employees may elect to contribute up to 10 percent of their salary. Employee contributions are matched by the Company at a rate of $1.50 for each $1.00 of employee contribution. Employee contribution shares may be issued from treasury at the average quarter-end market prices or purchased in the open market. In 2003, all employee contribution shares were purchased in the open market whereas all were issued from treasury in 2002. At or near each quarter-end, common shares are purchased in the open market for the Company contributions. In 2003, 98,121 Company contribution shares were purchased in the open market at an average price of $43.39 per share and a total cost of $4.3 million (2002 – 72,872 shares at an average price of $39.54 per share and a total cost of $2.9 million).

e) Stock options

The Company has a stock option plan (the "Stock Option Plan") for the benefit of its employees and directors. Options under the Stock Option Plan vest over a five year period and, if unexercised, expire six years from the date of grant. In the second quarter of 2003, the Stock Option Plan was amended to provide option holders the right to receive cash on the exercise of options. As a result of this change, a stock-based compensation cost of $33 million (2002 – nil) was recognized at June 30, 2003. Subsequent increases in the share price and changes in the outstanding options resulted in an additional $15 million of stock-based compensation cost during the remainder of the year.

During 2003, the Company paid $13.6 million (2002 – nil) on the exercise of 741,820 vested stock options where the cash alternative was selected. These payments were charged against the stock-based compensation liability.

Total stock option activity relating to the Stock Option Plan was as follows:

	Shares	Weighted Average Exercise Price
Balance, December 31, 2001	5,386,500	$ 27.19
Granted	852,400	$ 36.25
Exercised	(951,450)	$ 19.12
Forfeited	(281,700)	$ 32.48
Balance, December 31, 2002	5,005,750	$ 29.97
Granted	1,563,850	$ 41.32
Exercised for common shares	(1,208,750)	$ 22.10
Exercised for cash	(741,820)	$ 28.33
Forfeited	(392,240)	$ 35.36
Balance, December 31, 2003	**4,226,790**	**$ 36.21**

As at December 31, 2003, there were 4,229,275 common shares (2002 – 4,937,125) reserved for future issuance. The table below summarizes information about stock options outstanding at December 31, 2003:

Range of Exercise Prices	**Outstanding as of December 31, 2003**	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	**Exercisable as of December 31, 2003**	Weighted Average Exercise Price
$15.00 - $22.50	227,450	1.2	$ 18.34	78,150	$ 18.22
$22.51 - $33.77	1,150,090	2.2	$ 31.36	471,810	$ 31.44
$33.78 - $50.63	2,849,250	4.7	$ 39.60	325,520	$ 38.50
	4,226,790	3.8	$ 36.21	875,480	$ 32.88

f) 2002 comparative stock-based compensation proforma information

If the fair value based method had been used to account for the Stock Option Plan in 2002, the stock-based compensation costs, proforma net income and proforma net income per share would have been as follows:

Year ended December 31,	2002
Stock-based compensation costs	$ 1,544
Net income	
As reported	$ 158,440
Proforma	$ 156,896
Net income per common share	
Basic	
As reported	$ 2.98
Proforma	$ 2.95
Diluted	
As reported	$ 2.90
Proforma	$ 2.87

The 2002 proforma amounts include the compensation costs associated with stock options granted subsequent to January 1, 2002.

The Black-Scholes option pricing model, with the following weighted average assumptions, was used to estimate the fair value of options on the date of the grant:

Year ended December 31,		2002
Average fair value of stock options granted (per option)		
Director and officers	$	14.07
Other employees	$	11.70
Expected life of stock options (years)		
Director and officers		5.0
Other employees		4.5
Expected volatility (average)		31.9%
Risk free rate of return (average)		4.74%
Expected dividend yield		Nil

6. INCOME TAXES

As at December 31, future income tax assets (liabilities) arose from temporary differences as follows:

		2003		2002
Property, plant and equipment	$	(667,893)	$	(594,906)
Site restoration and abandonment		22,683		13,153
Bank loan		(14,399)		1,649
Stock-based compensation		10,254		–
	$	(649,355)	$	(580,104)

The provision for income taxes reflects an effective tax rate that differs from the combined federal and provincial statutory tax rate as follows:

Years ended December 31,		2003		2002
Income before taxes	$	545,600	$	293,332
Corporate income tax rate		40.4%		42.5%
Computed income tax provision	$	220,422	$	124,666
Increase (decrease) resulting from:				
Non-deductible Crown payments, net		87,445		71,045
Resource allowance		(89,166)		(72,209)
Tax rate reductions		(99,959)		(6,837)
Non-taxable foreign exchange		(14,399)		1,649
Other		(3,844)		5,547
Total income taxes	$	100,499	$	123,861
Current		9,898		82,021
Future		90,601		41,840
	$	100,499	$	123,861

7. Net income per share amounts

The Company follows the treasury stock method to compute the dilutive impact of stock options. The treasury stock method assumes that the proceeds received from the exercise of in-the-money stock options are used to purchase common shares at average market prices.

The weighted average number of common shares used to calculate per share amounts were as follows:

Years ended December 31,	2003	2002
Basic	53,793,072	53,241,352
Diluted	54,531,272	54,630,514

8. Financial instruments

Financial instruments, included in the balance sheets, are comprised of accounts and taxes receivable, current liabilities and the bank loan. The fair values of these financial instruments approximate their carrying amounts due to the short term maturity of the instruments and the market rate of interest and exchange rates applied to the bank loan.

All of the accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risk. The Company, from time to time, uses various types of financial instruments to reduce its exposure to fluctuating oil and natural gas prices, electricity costs, exchange rates and interest rates. The use of these instruments exposes the Company to credit risks associated with the possible non-performance of counterparties to derivative instruments. The Company limits this risk by transacting only with financial institutions with high credit ratings and by obtaining security in certain circumstances.

The Company's revenue from the sale of crude oil, natural gas liquids and natural gas are directly impacted by changes to the underlying commodity prices. To ensure that cash flows are sufficient to fund planned capital programs, costless collars are utilized. These instruments ensure that realized commodity prices will fall into the contracted range for the contracted sales volumes. Forward power contracts fix a portion of future electricity costs at levels determined to be economic by management.

Variations in interest rates directly impact interest costs. From time to time, the Company will increase the certainty of future interest rates using financial instruments to swap floating interest rates to fixed.

Crude oil sales and bank loans are referenced to or denominated in U.S. dollars. Accordingly, realized crude oil prices and debts in Canadian dollars are directly impacted by US$/CDN$ exchange rates. From time to time, the Company will use financial instruments to fix future exchange rates.

As at December 31, 2003, the Company had the following financial instruments outstanding:

	Notional Volume	Remaining Term	Pricing/Rate	Market Value* Year End
Crude oil				
WTI Costless Collars	25,000 bbls/day	Jan/04 – Jun/04	US$25.65 to US$31.08/bbl	$ (4,234)
WTI Costless Collars	10,000 bbls/day	Jul/04 – Sep/04	US$25.50 to US$30.70/bbl	–
Natural gas				
AECO Costless Collars	25,000 GJ/day	Jan/04 – Mar/04	$6.00 to $9.07/GJ	–
Electricity				
Alberta Power Pool Swaps	50 MW	2004	$44.00 to $50.00/MWh	1,827
Alberta Power Pool Swaps	60 MW	2005	$41.00 to $50.00/MWh	(284)
Alberta Power Pool Swaps	60 MW	2006	$42.25 to $43.15/MWh	(1,842)
Interest rates				
LIBOR Interest Rate Swaps	US$100 million	Jan/04 – Jun/04	1.164%	36
Foreign exchange				
Canadian Dollar Call Sales	US$340 million	Jan/04	CDN$/US$0.7497	**

* Unrealized gain (loss) based on calculations using posted rates for similar contracts at the balance sheet date.

** These instruments obligate the Company to purchase U.S. dollars if counterparties exercise a one day option. A mark-to-market loss of $12.7 million would have occurred if the counterparties had exercised their options on December 31, 2003. This potential loss is included in current liabilities. Subsequent to December 31, 2003, the instruments expired or were extended without any cash cost to the Company and no counterparties have exercised their put options.

9. CASH FLOWS

Changes in non-cash working capital items increased (decreased) cash and cash equivalents as follows:

Years ended December 31,	2003	2002
Accounts receivable	$ 4,013	$ (57,526)
Taxes receivable	(26,257)	–
Other current assets	(2,537)	994
Accounts payable and accrued liabilities	62,852	49,967
Income taxes payable	(94,274)	69,163
	$ (56,203)	$ 62,598
Operating activities	$ (114,632)	$ 39,654
Investing activities	58,207	22,872
Financing activities	222	72
	$ (56,203)	$ 62,598

10. SUBSEQUENT EVENTS

a) On February 18, 2004, the Company acquired oil and natural gas assets that produce approximately 10,000 boe production per day, including 7,000 barrels per day of conventional heavy oil and 18 mmcf per day of natural gas. The purchase price included producing properties and approximately 400,000 net acres of undeveloped land in southwest Saskatchewan. The $234 million purchase price was financed by borrowings under the existing credit facilities. To accommodate the increased size of operations, the Company increased the existing operating loan facility to $100 million from $50 million.

b) On March 1, 2004, the Board of Directors resolved to review three strategic alternatives:

i) Maintaining the status quo and continuing as an independent oil and natural gas exploration and development company;

ii) Converting the Company in whole or in part into an income trust. In this regard, the Board has instructed legal counsel to obtain an advance ruling from Canada Customs and Revenue Agency regarding the tax consequences of a conversion to an income trust. Receipt of a satisfactory ruling will be a material consideration in assessing this alternative; and

iii) Others, including a sale or merger.

Summary Information – Five Year Summary

Years ended December 31,

	2003	2002	2001	2000	1999
Financial					
($000s, except share and per share amounts)					
Gross revenues	$ 1,367,823	$ 986,974	$ 1,076,181	$ 952,157	$ 414,581
Cash flow	812,697	463,459	612,943	560,056	230,336
Basic per share	15.11	8.70	11.72	10.86	4.89
Diluted per share	14.90	8.48	11.36	10.46	4.73
Net income	434,951	158,440	245,104	222,499	78,013
Basic per share	8.09	2.98	4.69	4.31	1.66
Diluted per share	7.98	2.90	4.54	4.16	1.60
Capital expenditures	608,051	573,255	633,532	541,921	759,961
Total assets	3,138,028	2,792,420	2,396,365	2,001,121	1,506,784
Bank indebtedness	442,394	598,435	556,330	590,355	596,373
Shareholders' equity	1,621,026	1,293,021	1,114,069	854,612	635,275
Dividends					
Quarterly	6,723	–	–	–	–
Special	80,682	–	–	–	–
Total	$ 87,405	$ –	$ –	$ –	$ –
Common shares outstanding at year end (000s):					
Basic	53,692	53,733	52,723	51,818	51,222
Basic plus options	57,919	58,738	58,109	56,945	55,551
Market value per common share – High	$ 49.50	$ 44.74	$ 45.25	$ 41.50	$ 34.50
– Low	35.77	32.76	30.30	28.25	14.60
– Close	$ 48.17	$ 41.00	$ 35.40	$ 37.40	$ 28.25
Operating					
Production					
Light oil and natural gas liquids production (bbls/day)	35,916	34,151	29,683	24,368	17,117
Light oil and natural gas liquids price ($/bbl)	$ 37.08	$ 34.04	$ 33.52	$ 36.62	$ 25.10
Conventional heavy oil production (bbls/day)	10,416	9,882	9,201	8,094	3,662
Conventional heavy oil price ($/bbl)	$ 32.73	$ 28.39	$ 24.16	$ 33.81	$ 20.99
Total liquids production (bbls/day)	46,332	44,033	38,884	32,462	20,779
Total liquids price ($/bbl)	$ 36.10	$ 32.77	$ 31.31	$ 35.83	$ 24.37
Natural gas production (mmcf/day)	331.3	332.7	330.3	306.2	245.1
Natural gas price ($/mcf)	$ 6.26	$ 3.79	$ 5.24	$ 4.70	$ 2.57
Reserves (proved and probable)					
Oil and liquids (mmbbls)	222.4	248.9	229.1	196.3	149.4
Natural gas (bcf)	813.3	1,012.7	1,071.4	1,078.8	994.0
Wells drilled (gross)					
Natural gas	307	209	274	228	139
Oil	337	112	118	129	44
Dry	106	44	61	48	27
Total wells drilled	750	365	453	405	210
Undeveloped land holdings					
Western Canada (000s of acres)					
Gross	5,538	4,402	3,672	3,030	2,583
Net	5,313	4,158	3,381	2,763	2,280
Average working interest (%)	96	94	92	91	88

Summary Information – Quarterly Summary

	2003				2002			
Three months ended,	**Mar 31**	**Jun 30**	**Sept 30**	**Dec 31**	Mar 31	Jun 30	Sept 30	Dec 31
Financial								
($000s, except per share amounts)								
Gross revenues	$ 392,101	$ 346,705	$ 324,850	$ 304,167	$ 194,923	$ 233,416	$ 240,493	$ 318,142
Cash flow	230,101	184,140	204,876	193,580	94,515	115,881	100,192	152,871
Basic per share	4.29	3.43	3.80	3.59	1.79	2.18	1.87	2.86
Diluted per share	4.20	3.38	3.77	3.55	1.74	2.11	1.83	2.80
Net income	135,552	190,038	74,964	34,397	25,195	39,448	31,854	61,943
Basic per share	2.52	3.54	1.38	0.65	0.48	0.74	0.60	1.16
Diluted per share	$ 2.47	$ 3.49	$ 1.38	$ 0.63	$ 0.46	$ 0.72	$ 0.58	$ 1.14
Operating								
Light oil and natural gas liquids production (bbls/day)	36,345	35,945	35,340	36,044	32,083	32,513	34,448	37,498
Light oil and natural gas liquids price ($/bbl)	$ 41.89	$ 35.20	$ 35.28	$ 35.93	$ 23.03	$ 32.08	$ 36.22	$ 36.95
Conventional heavy oil production (bbls/day)	10,076	9,819	10,720	11,035	9,938	9,948	9,870	9,775
Conventional heavy oil price ($/bbl)	$ 39.36	$ 33.37	$ 32.37	$ 26.60	$ 19.39	$ 31.62	$ 31.72	$ 30.70
Total liquids production (bbls/day)	46,421	45,764	46,060	47,079	42,021	42,461	44,318	47,273
Total liquids price ($/bbl)	$ 41.34	$ 34.81	$ 34.60	$ 33.75	$ 27.62	$ 31.98	$ 35.22	$ 35.66
Natural gas production (mmcf/day)	328.2	342.7	339.9	314.4	313.3	343.7	336.2	337.1
Natural gas price ($/mcf)	$ 7.43	$ 6.47	$ 5.70	$ 5.46	$ 3.21	$ 3.51	$ 3.13	$ 5.26

Conversions of Units

Imperial	Metric
1 ton	0.907 tonnes
1.102 tons	1 tonne
1 acre	0.40 hectares
2.5 acres	1 hectare
1 bbl	0.159 cubic metres
6.29 bbls	1 cubic metre
1 mcf	28.2 cubic metres
.035 mcf	1 cubic metre
1 mile	1.61 kilometres
.62 miles	1 kilometre

Unless otherwise stated, all financial sums are stated in Canadian dollars.

Abbreviations

bbl	barrel (oil)
mmbbls	million barrels
bbls per day	barrels per day
boe	barrels of oil equivalent (based on 6 mcf of natural gas equals one barrel of oil)
mcf	thousand cubic feet (natural gas)
mmcf	million cubic feet
mmcf per day	million cubic feet per day
GJ	gigajoule
bcf	billion cubic feet
tcf	trillion cubic feet
API	American Petroleum Institute
TSX	Toronto Stock Exchange
WTI	West Texas Intermediate
MW	megawatt
MWh	megawatt-hour
mmbtu	million British thermal units

Our Employees

In Memory

In the past year, we were deeply saddened by the loss of Trevor Collier, Liliana Faiman and Doug Renschler. Our thoughts and prayers go out to their family and friends.

"Say not in grief 'He is no more' but live in thankfulness that he was."
- Proverb

Trevor Aadland
Ray Abt
John Alexander
Bill Andrew
Brian Antoni
Ed Armagost
Bill Arthur
Kristine Arthur
John Artym
Henry Babayan
Kevin Bachman
Jim Baier
Gus Baier
Les Bailey
Marge Baker
Sharon Baker
Leona Ballman
Jesse Barlow
Deanna Barrell
Brent Basisky
Kelly Batten
Katrina Baylon
Steve Beairsto
Linda Beaton
Ginnette Becker
James Bell
Mike Bell
Harold Bellerose
Shawn Bennett
Craig Berger
Elise Bergesen
Alan Berry
Billie Berry
Pete Beskas
Paula Bica
Kenneth Bills
Rhett Binding
Darrel Bird
Morley Birnie-Browne
Michael Blair
Al Bloom
Shawn Blurton
Beth Bolander
Jill Bonkowsky
Wayne Borton
Maurice Bourgeois
Vivian Bredin
Krystal Brekkaas
Dave Brooks
Graham Brooks
Laurence Broos
Darren Brown
Jean Brule
Wayne Brzus
Carl Bur
Lorraine Burd
Lynne Burgess
Aaron Burghardt
Steve Burnell
Janet Burns
Garnet Callison
Lynn Callsen
Brian Campbell
Heather Campbell
Leslie Carlyle-Ebert
Neil Carnell
Murrey Carpendale
Phil Carpentier
Mike Carteri
Cory Cavener
Sylvia Chan
Barclay Charlton
Kun Cheang
Tom Chenard
Danny Chow
Gloria Choy
Jeff Chung
Rachana Chuong
Barry Chykerda
Bryan Clake
Audrey Clark
Rob Clarke
Barry Clarkson
Robert Clayson
Wendy Clermont
Rick Coates
Tony Colabella
Andrew Connolly
Tim Connolly
Tom Cookson
Len Cooper
Tracey Copeland
Ameeta Cordell
Colleen Cornish
Don Cosman
Don Cote
Dali Courtright
Ryan Craig
Darcy Crawford
Tammie Cretney
Doug Cromer
Dave Crosley
Bruce Cross
Harvey Cunningham
Tara Cybulsky
Trevor Dales
Regan Daley
Noe Damian-Diaz
Laurie Dammann
Randy Danais
Rosie David
John Davidson
Michael Davison
Daniel Deiana
Bill Demers
Eugene Dennis
Lars Depauw
Paul Dever
Gregg Dickson
Devin Dixon
Susan Dixon
Chris Doyle
Andrea Draper
Richard Drozda
Trevor Dufresne
Robert Dumaine
Marg Dunlop
Susan Dunn
Christa Dunphy
Jason Dunsmore
Robert Dupuis
Dave Dusterhoft
Brad Dyck
Helmut Eckert
Roulette Edwards
Silas Ehlers
Ruben Ehrmann
Ninette Elashry
Rabih El-Chaar
Gerry Elms
Connie Emond
Renee Emond
Marina Entin
Devan Erickson
Ed Erickson
Ken Erker
Anton Esterhuizen
Keith Faye
Christopher Fehr
John Felker
Stephanie Fiedler
Mervin Firkus
Dan Flick
Patty Flick
Scott Flynn
Roger Fontaine
Jackson Ford
Dean Forrester
Ben Forsyth
Harvey Foss
Codey Foss
Shannon Foster
Wilf Foster
Tammy Fremont
Brett Frostad
Greg Gabert
Gerry Gallagher
Grant Gassner
Clayton Gates
Gregg Gegunde
Derek Germann
Dale Gibb
Lance Gibson
Justine Gill
Minty Gill
Lester Gladue
Tracy Goddard
Wally Grab
Len Granson
Garrett Grant
Josephine Grant
Shannon Grant
Gloria Greenstein
Russ Gregg
Jim Greik
Trev Grover
Bob Grue
Dale Guillemin
Wayne Gruhlke
Darrell Gylander
Crystal Hall
Ingrid Hall
Ivor Haluszka
Carolyn Handy
Coro Hanlen
Tara Hannon
Val Hansen
Corrine Harder
Mark Hardman
Muriel Harkness
Helga Harlander
Shawn Harmacy
Gord Harvey
Christine Hassman
Terry Haug
Don Hayduk
Stanley Hein
Trevor Hein
Kevin Henry
Darryl Herner
Deb Herold
Dean Herron
Anne Higgins
Tyla Higgs
Ellen Hill
Gregory Hodgson
Jack Hoffman
Sharlene Hopkins
Camelia Horvath
Vernon Hoshizaki
Dave Houston
Brent Howard
Gord Howe
Dave Hubschmid
Don Huston
Jason Hutchins
Ann Ingles
Shimpei Ito
Damon Ivanics
Kevin Jack
Grant Jackson
Brad Jaffray
Charlene Jamieson
Rob Jamieson
Rod Jamieson
Crystal Jardine
Thane Jensen
Joel Johnson
Susan Johnson
Wayne Johnson
Marg Johnston
Leighton Jones
Norm Kalmanovitch
Alice Karg
Ray Karlson
Chris Keenan
Kevin Keenan
Fred Keith
Chad Kellgren
Cyril Kelly

Jaydee Kemsley
Rod Kerby
Jim Kesegic
Richard King
Chris Kirwan
Brent Kissick
Alan Kitagawa
Jim Klap
Kent Klatchuk
John Klein
Mark Klink
Dalton Klippert
Kathy Kloppenburg
Jim Kluczny
Mike Kluczny
Yvonne Knibbs
John Knutson
Wayne Kobley
Ryan Koehn
Sherry Koftinoff
Iska Kolackovsky
Roxanne Kosiorek
Kristen Kuvaja
Daisy Kwan
Anthony Laczo
Magni Lake
Nhi Lam
John Lambie
John Lanaras
Drew Lane
Lonnie Langford
Norman Lapierre
Dereck Larsen
Lars Larsen
Don Larson
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Notes to Reader

1) This document contains forward-looking statements (forecasts) under applicable securities laws. Forward-looking statements are necessarily based upon assumptions and judgements with respect to the future including, but not limited to, the outlook for commodity markets and capital markets, the performance of producing wells and reservoirs, and the regulatory and legal environment. Many of these factors can be difficult to predict. As a result, the forward-looking statements are subject to known or unknown risks and uncertainties that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

2) All dollar amounts outlined in this document are expressed in Canadian dollars unless noted otherwise.

3) Where applicable, natural gas has been converted to barrels of oil equivalent (boe) using a conversion rate of 6 mcf of natural gas equals 1 boe.

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